Corporate Governance –
Managing Risk, Delivering Performance

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CORPORATE GOVERNANCE - MANAGING RISK, DELIVERING PERFORMANCE

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To

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I. INTRODUCTION

I am pleased to be invited to present at this conference which has the theme "Ensuring Accountability and Ethics with Corporate Governance in the Public Sector". This forum provides an opportunity to explore and discuss some important issues associated with the management and operation of government agencies and businesses at a time of significant transformation of the public sector and the delivery of public services.

As with many other democracies, Australian governments have been focussing increasingly on achieving a better performing public sector and less costly, more tailored or better focussed and higher quality services to citizens. This has not only involved adapting or adopting private sector methods and techniques but also direct participation by the private sector in providing public services, even so-called and traditionally regarded core services such as policy advice and determination of entitlements.

The new challenges include market-testing, competitive tendering and contracting out, all of which may be considered to present opportunities for, as well as risks to, a public service which has traditionally said to be risk averse. These new mechanisms are central to improved business performance and accountability in the more market-oriented public sector environment that is evolving. As well, the public sector is now required to manage on an outputs/outcomes basis including the adoption of accrual accounting and budgeting.

What we are basically addressing in discussions relating to the management and operation of public sector organisations, and also private businesses where they are involved, are ways to improve organisational performance and accountability. Good corporate governance is central to this focus. It is an issue that is receiving greater attention as the standards expected of public sector organisations, in terms of both performance and accountability, increase. The emphasis has endured for a sufficiently sustained period to know it isn’t just a passing phase.


This brings me to the nub of this presentation which is about being accountable for our performance in a rapidly changing public sector environment where there is fundamental questioning of what government does, or should do, and how public services should be delivered to be more responsive to the various stakeholders. In particular, my focus today is on using corporate governance approaches to improve performance and accountability in the changing operational framework that is developing with greater privatisation and commercialisation of the public sector involving private sector provision of public services (sometimes in competition with the public sector). It is not just an issue about shifting the goal posts but is also about playing on a different surface with different rules.

My comments will be from the Commonwealth public sector perspective, although I contend we are increasingly sharing similar challenges to those at the State and...
local government levels. This is evidenced particularly by recent audit reports on corporate governance issues released by my State Auditor-General colleagues in New South Wales, Western Australia and Queensland.

The nature and extent of administrative changes have significant implications for corporate governance within the public sector. In order to improve our performance we need to understand the environment in which our organisations are working if we are to find new and better ways of delivering public services, while meeting ethical and professional standards. Consequently, the first part of my address “The Growing Convergence Between the Public and Private Sectors” is largely about the effect that recent government reforms are having on the public sector accountability framework and on the perceived accountability/efficiency trade-offs in what is seen as a more risky management environment.

The notion of "efficiency" used in this presentation is mainly related to the level of a ‘market price’, however defined, which does not include any provision for public sector accountability requirements. However, the latter usually involves a cost which cannot be ignored. Pearson Des 1999, ‘The Cost of Accountability - Getting the Balance Right’, Presentation to the Australasian Council of Public Accounts Committees, Fremantle, 21-23 February. That cost might broadly be encapsulated in the often difficult to define ‘public interest’ which is often contrasted with ‘private interest’. A particular challenge of such an environment is to effectively manage risk as an opportunity and not just as a threat.

I will go on to discuss how corporate governance can be used as a tool to assist us to both improve our performance and be more accountable for that performance in this converging public/private sector environment. The tone and direction of any organisation is set within its corporate governance framework covering what we do; how we do it; how we manage ourselves; how we control our environment; how we deliver our services; the values/ethical standards we set ourselves; our relationships and commitments to our clients and other stakeholders; our performance assessment and evaluations; and our monitoring, review and reporting approaches; are all part of the way we govern ourselves.


Corporate governance provides the integrated strategic management framework necessary to achieve the outputs and outcomes required to fulfil organisational goals and objectives. Clearly defined roles and responsibilities are essential if we are to be realistically held accountable for our performance. Also particularly relevant elements of an effective governance framework are our control structures, incorporating sound risk management, which are an increasingly important aspect of our performance and accountability. It is necessary to understand the various linkages between these elements and the attainment of organisational objectives in order to ensure we have a sound corporate governance framework. Barrett, P., 1998. ‘Risk Management as Part of the Initiative for Greater Public Sector Accountability’, Risk Management in the Public Sector Seminar, 18 March. Therefore, these elements are the focus of the next part of my presentation as any discussion of high level performance can not be
complete without a real understanding of these elements and their linkages to each other as a means of achieving required results.

There is a tendency to discuss issues relating to corporate governance in isolation of the business itself. The final section discusses the importance of effectively integrating the various elements of a robust governance framework into a coherent corporate approach and what it takes to integrate them effectively with business operations. I will then make some concluding remarks.
II. THE GROWING CONVERGENCE BETWEEN THE PUBLIC AND PRIVATE SECTORS.

The Australian Public Service (APS) has been steadily evolving towards a more private sector orientation over the last decade, influenced by the momentum of the National Competition Policy reforms Independent Commission of Inquiry Into National Competition Policy 1993, ‘National Competition Policy - Report to Heads of Australian Governments’, AGPS, Canberra. and the Industry Commission inquiry into competitive tendering and contracting. Industry Commission 1996, ‘Competitive Tendering and Contracting By Public Sector Agencies’, AGPS, Melbourne, January. More recently, the Government’s acceptance of the basic principles set down by the National Commission of Audit for determining what activities should be undertaken within the public sector has led to an increased focus on privatisation and outsourcing of government services and activities. National Commission of Audit 1996, ‘Report to the Commonwealth Government’, AGPS, Canberra, June.

The Commission has adopted a framework of principles, cognisant of the broad economic and social goals of government to guide its analysis and recommendations for improvements. This framework includes the following decision sequence:

- Assess whether or not there is a role for government.
- Where there is, decide which level of government, and assess whether or not government objectives are clearly specified and effectively provided.
- Assess whether or not effective activities are being conducted on a ‘best practice’ basis. (pageage vii).

In relation to the last mentioned issue, the Committee found that service delivery systems should be market tested against other systems to fully test their efficiency. This involves public sector managers benchmarking their service delivery methods against best practice, re-engineering the way they do their business and contracting-out functions where it is cost effective to do so. (pageage 83).

The Committee recommended that agencies should be required to market test all activities over the next 3 to 5 years unless there is a good reason not to do so (page 84). This is now government policy. The Government has made it clear that the challenge of public sector reform, including contestability with the private sector, remains both substantial and urgent.Barrett, P., 1999. ‘Accountability for Risk in a Contestable Environment’, Presentation at the 1999 Department of Employment, Training and Industrial Relations Biennial Risk Management Conference, 27-29 July.

Australia is not alone in adopting this new policy direction. The changes which we are experiencing are consistent with an international move towards a smaller public sector, greater privatisation. Latest figures published by the OECD show that global privatisation proceeds were US$153.5 billion in 1997 compared to US$98.4 billion in 1996, an increase of some 55 percent. For OECD economies, privatisation transactions raised US$98.5 billion in 1997, up from
US$70.8 billion in 1996. Australia raised some US$26 billion between 1996 and 1997 of which the one-third sale of Telstra comprised US$10.9 billion (A$14.3 billion). In OECD, Financial Market Trends, No.70, June 1998 (pages 150-153), and commercialisation of the public sector and an increasing involvement of the private sector in the provision of public services (sometimes in competition with the public sector). The use of contracting has increased significantly in most OECD countries and is widespread, for example, in the United Kingdom (UK), the United States (USA) and Canada.

Within Australia, the total value of Commonwealth contracts has been increasing. Between 1992-93 and 1994-5 the total value of contracts nearly doubled to around $8 billion - some 15 per cent of total Federal expenditure at that time. OECD Public Management Service 1996, as reported in MAB/MIAC Report No.21 1997, ‘Before you sign the dotted line…Ensuring Contracts can be Managed’, AGPS, May, (page 63). During the same period the total value of State and Territory contracts was estimated at around $3.3 billion (4 per cent of their total expenditure) and local government contracts at around $2 billion (some 20 per cent of their total expenditure). This is the latest period for which such information seems to be readily available.

More recently, the Commonwealth has undertaken its most significant outsourcing to date, that of employment services. The creation of the new Job Network has involved contracting out some $1.7 billion of services previously provided by the public sector. It is estimated that the value of the next round of contracts, to commence in February 2000 and run for three years, will be around $3 billion.

The introduction of a suite of financial management legislation which was enacted in January 1998 to replace the Audit Act 1901 is intended to allow the APS to better manage and respond to new challenges brought about by the changing environment. The legislation provides opportunities for enhanced performance and accountability in the APS but can also involve greater management risks, particularly in an environment of devolved authority. It has also undoubtedly heightened the APS’s awareness of good corporate governance.

One important aspect of this financial management legislation is that it broadly reflects a basic distinction between core agencies of Government and non-core bodies controlled by Government. The split reflects, inter alia, a general acceptance that some activities should only be performed under the close and direct control of the Executive, whereas others by their very nature require a degree of independence from the Executive.

The dichotomy between ‘core’ and ‘non-core’ Government activities is an issue that will continue to receive considerable attention as the APS strives to maximise efficiency and effectiveness of service delivery. You would know that the size of the core is shrinking as even areas that were once considered traditional public sector activities, such as employment services and the provision of policy advice, are increasingly being subject to privatisation, outsourcing and competition. Just how small the core can become without jeopardising the public interest is still open to debate.
The new financial legislation illustrates how significantly the APS management framework has changed in the last decade. Voluminous and detailed rules and prescriptions have been largely replaced by principles based legislation which clearly places the responsibility for the efficient, effective and ethical management of public sector organisations in the hands of Chief Executive Officers (CEOs) and directors of boards. Together with ongoing reforms to the Public Service Act 1922 and the more principles-based legislation relating to workplace arrangements (which has deregulated and decentralised the APS people management framework) this legislation is intended to provide managers with increased flexibility, including the elimination of unnecessary bureaucratic processes, to respond to the challenges of the evolving APS operating environment and improve the performance of their organisations. The emphasis is now very much on personal responsibility starting at the level of the CEO. Barrett, P, 1998. Address to the Defence Audit and Program Evaluation Committee (DAPEC), Canberra, 28 July, (page 4). Greater management flexibility and commensurate increases in personal accountability are the hallmarks of the ongoing public sector reform movement.

Not surprisingly, the increased emphasis on personal responsibilities and accountabilities has focussed attention on personal sign-offs to the CEO, and so on to other organisation levels often as part of the normal hierarchical delegations for particular areas of responsibility by particular individuals, including for financial performance. But, I would like to point out, it is not the action of personal sign-off that creates the assurance. It is what underlines (or what underpins) the sign-off that is important, including endorsement of that framework and its acceptance by those who rely on it. Instructions (such as Chief Executive Instructions), operational guidance and user-friendly information systems are essential in this respect and part of good corporate governance. Therefore the exercise of responsibility and associated sign-offs, in relation to an organisation’s stakeholders, are seen as central to good corporate governance with its agreed objectives, strategies and performance measures.

Devolution of authority has also increased the emphasis on the individual organisation (whether this is a government agency, an authority or a company, including a GBE) with less central control being provided by central agencies. This means that a variety of tasks with traditional corporate governance attributes which were previously undertaken by central agencies and specialist groups, are now the responsibility of individual entities. For example, in the Commonwealth sector, PSMPC provided oversight on training initiatives and DoFA was responsible for financial management and systems. Central guidance has also been provided in the past to agencies on procurement, risk management, contracting out and competitive tendering, as just a few examples.

The absence of these central controls and direction has undoubtedly reinforced the need for good corporate governance in individual agencies and entities. Corporate governance provides the vehicle to integrate conformance and performance imperatives. Organisations are now responsible for their own oversight and need to develop and implement appropriate accountability and performance structures to assist them measure their achievement against strategic objectives. Any coordination of activities or sharing of experiences are matters for individual agencies to arrange between themselves. Further removal
of central oversight and coordination is problematical as agencies recognise that some interrelationships, such as ‘shared outcomes’ are indicative of the need for broader corporate governance arrangements across agencies. Realistically, the latter will obviously take some time to accomplish.

The central oversight function has not been totally removed. Some central functions are still undertaken by agencies such as the Commonwealth Ombudsman, the Privacy Commission and the Australian National Audit Office (our role is to provide assurance to the Parliament and the Australian community on performance and accountability for that performance. Other central agencies, in particular Prime Minister and Cabinet, Treasury, Finance and Administration, and Employment, Workplace Relations and Small Business are in the process of establishing more of a guidance and partnership role with the rest of the APS.

From an ANAO perspective this has meant a broadening of our approach to auditing which has focussed largely on compliance and conformance, to a more pro-active involvement with agencies and entities with the goal of adding real value to public administration. In this regard we have moved from a traditional ‘gotcha’ mentality, usually associated with auditors, to one where we seek to assist organisations to better manage their functions (business), thereby improving their performance as well as providing the necessary assurance to stakeholders. That is, we seek WIN-WIN outcomes or results. For example, our better practice guides are designed to assist organisations test their own systems and where applicable, improve their practice and performance in line with recognised principles of better practice.

I would like to stress that we are not trying to supplant the role of central agencies or fill a perceived gap as a business strategy. Indeed, on a number of our guides, we have worked positively with other interested central and line agencies. Nevertheless, it needs to be recognised that, in a devolved environment and with the vacation of the traditional monitoring review and overseeing roles by central agencies, gaps have emerged in the information available to managers to help them to make sound and informed decisions. Given our across the service perspective, we are well placed to fill at least some of those gaps as part of our contribution to improving public administration.

It is important to understand that the introduction of new ways of delivering public services does not obviate or limit the need for accountability simply because of the market discipline induced by competition. To the contrary, in a more contestable environment which is highlighted by less direct relationships and greater decision-making flexibility, it is essential that we maintain and enhance our accountability, improve our performance, and find new and better ways of delivering public services while meeting ethical and professional standards. Increasingly, those ways are dependent on information technology and communication systems which bring their own control problems as well as significant opportunities.

The concept of accountability is not exclusive to the public sector. No one doubts, for example, that the boards of private sector corporations are accountable to their shareholders, who want a return on their investment. Even traditional elements of what might be termed ‘public accountability’, such as values and ethics, fair and equitable treatment, the environment, and community welfare, are being
addressed by private sector boards and executives as part of their business strategy to be seen, and accepted, as ‘good corporate citizens’. Ibid. However, this does engender different views about stakeholder responsibility, as I will discuss later.

Notwithstanding, public sector commentators would still contend that it is the nature and extent of that accountability which distinguishes the two sectors. At the risk of stating the obvious, the public sector operates, first and foremost, in a political climate which is values-oriented as witnessed by constant references to the ‘public interest’, which has always been difficult to define or measure in any generally agreed fashion, except that it is very real to the Parliament and public servants as well as to the ordinary citizen. In short, everyone seems to know when they do not have it.

Public servants, at least, must understand the pervasive and often decisive influence of ‘politics’ as opposed to ‘markets’ both on public policy and administration. It means that public sector agencies must balance complex political, social and economic objectives, which subject them to a different set of external constraints and influences than those experienced in the private sector.

The Chartered Institute of Public Finance and Accountability, ‘Corporate Governance: A Framework for Public Service Bodies’, (1995), July, (page 7). This is a reality we as public servants, meaning all who are employed in the public sector, should never ignore.

Therefore, while the increasingly business-like approach of the public sector is welcome, it is important to recognise that the provision of public services involves rather more than achieving the lowest price or concepts of profit or shareholder value. Public service agencies must strive to maximise overall ‘value for money’ for citizens which requires consideration of issues other than production costs, such as client satisfaction, the public interest, fair play, honesty, justice and equity. It also requires proper accountability for the stewardship of public resources, including asset management and use of techniques such as life-cycle costing, as in the private sector.

As the APS continues to move to a more private sector orientation we are increasingly seeing a growing adoption or adaptation of private sector approaches, methods and techniques in public service delivery. Consequently, there is an issue of trade-offs between the nature and level of accountability and private sector cost efficiency, particularly in the delivery of public services and in the accountability regime itself. A sound corporate governance framework, with its focus on control and monitoring mechanisms that are put in place by an organisation, can assist in enhancing stakeholders’ value of, and confidence in, the performance, credibility, viability and future prospects of that organisation in a rapidly transforming public sector.

In a submission to a recent inquiry into corporate governance and accountability arrangements for Government Business Enterprises (GBEs) by the Joint Committee of Public Accounts and Audit (JCPAA) the Department of Finance and Administration (DOFA) outlined the following key features of the Commonwealth Government’s corporate governance framework:
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- a reliance on the existing framework, Corporations Law, as much as possible;
- regular reporting of performance to shareholders; and
- boards are accountable to shareholders for GBE performance and shareholders are accountable to Parliament and the public. Department of Finance and Administration, 1999, ‘Submission to the JCPAA Inquiry into Corporate Governance and Accountability Arrangements for Commonwealth GBEs’, JCPAA, Volume 1, Submissions 1-19; (page S25).

I would suggest that devolution of authority and accountability to agency heads, together with contracting out and contestability, has significantly increased the risk profile of agencies. As agencies increasingly have recourse to contractors, some of whom in turn employ sub-contractors, to perform what were once considered core public sector activities, the ‘golden thread’ of accountability that binds the APS does become strained. At the very least it engenders a higher level of uncertainty as the line of responsibility is extended. The public sector must manage the risks inherent in this new environment if it is to achieve the levels of performance required and satisfy whatever accountability requirements have been determined. With this in mind, I want to review briefly a particular challenge to the robustness of corporate governance structures associated with the increased privatisation of the public sector.

Opportunities and risks associated with the growth of outsourcing

A feature of the changing public sector environment has been the increased emphasis placed on the contestability of service delivery and outsourcing of functions which, it is judged, the private sector can undertake more efficiently. Outsourcing advocates point to the opportunities offered, such as:
- increased flexibility in service delivery;
- greater focus on outputs and outcomes rather than inputs;
- freeing public sector management to focus on higher priorities;
- encouraging suppliers to provide innovative solutions; and

However, there are also a number of risks which need to be understood and managed if the full benefits from ‘privatisation’ are to accrue to the public sector and to the Australian citizen. These risks include:
- less direct relationships through the introduction of a new player in the accountability chain – the private sector provider;
- a reduction in the flow of information available to assess performance through claims of commercial confidentiality; and
- incumbent private suppliers gaining a competitive advantage to the extent that they virtually become monopoly suppliers and reduce the level of competition for later contracts.
Transparency of the processes is essential in the context of outsourcing. Access powers of the Auditor-General are an important aspect of maintaining public sector accountability in this context. One of the central issues, particularly in the case of contracting out of traditionally public sector activities is the auditors’ and, through them, the Parliament’s, access to contractor records.

This issue of access to third party records in the case of private sector contracts for government services has received much attention in recent times. Claims of commercial confidentiality in relation to government contracts has recently been commented on by the South Australian Auditor-General:

‘In situations where government contracting results in a long term transfer of material government responsibility to the private sector, the right of the people to know the extent and terms of that transfer must take precedence over less persuasive arguments in favour of confidentiality. Not only is the public affected by the transfer of what is government responsibility but it is further affected by the creation of a new relationship (often long term) between government and a private entity. A relationship about which the public is entitled to advise, consent to or object to through both their Parliamentary representatives and other forums.’ Report of the Auditor-General for the year ended 30 June 1998, ‘Government Contracts: A Specific Matter Raised Pursuant to Subsections 36(1)(a)(iii) and 36(1)(b) of the Public Finance and Audit Act 1987’.

The Parliament’s ongoing interest in Commercial-in-Confidence matters was evident during the passage of the new financial legislation to replace the Commonwealth Audit Act 1901, referred to earlier. This was reflected by the request of the Senate, as part of the motion to adopt the report of the committee with respect to the package of legislation, as follows:

‘... that the Auditor-General include in the annual report on the operations of the Australian National Audit Office for the financial year 1997-98 a report on the appropriateness of commercial-in-confidence practices with recommendations on legislative regulation of such practices.’ Senate Hansard, 29 September 1997, (page. 7148).

The message here is that external scrutiny (through public reporting and the activities of Auditors-General) is an essential element in ensuring that public accountability is not eroded, by default, through contracting out. Just as it is incumbent upon public sector agencies to ensure they have a sound understanding of the commercial nature of any contract, private sector bodies need to recognise that there are overlaying public accountability issues, not present in purely private sector transactions, that need to be addressed. For this reason outsourcing contracts should include access provisions to fulfil any performance and financial statement auditing requirements as necessary. The ANAO has developed and disseminated to all Commonwealth agencies and bodies standard contract clauses concerning access by those organisations and the ANAO to relevant records and premises of all service providers. These are available from the Executive Director, Corporate Management Branch in the ANAO.
Contractors can expect to have their performance scrutinised both by purchasing agencies and by review bodies such as the ANAO, Ombudsman and Privacy Commissioner. Recent audit reports suggest that many contractors have yet to fully appreciate this aspect of working for government or to embrace the higher and/or different standards of accountability that are required when public money is involved. Any trade-off would possibly be more about the nature and level of accountability rather than about efficiency per se. However, it is not difficult to envisage at least some cost for accountability over a purely market-oriented transaction.

I do not mean to suggest that agencies should have unfettered access to contractors’ records but contractual arrangements must enable agencies to have sufficient information to enable their managerial and accountability responsibilities and obligations to be fully met. This issue is particularly important to me because the ANAO needs to have access to records and information relating to contractor performance in order to fulfil its statutory duty to the Parliament.

Optimising the trade-off between accountability and a lower market-oriented price requires senior public service managers to ensure they are not risking the efficiency and effectiveness of their core functions by ill considered, ad hoc, outsourcing, the effects of which may not be confined to the particular services or activities being outsourced. A further important consideration is how this trade-off between accountability and efficiency might change in relation to core and non-core Government activities. The essential issue, as it often is in public administration, is to achieve an appropriate balance which can vary in differing circumstances. For example, a greater level of accountability may be demanded for certain activities, as they are determined to be more important to the public interest and/or politically sensitive. Indeed, this consideration may well provide the case for maintaining current arrangements, rather than contracting out their delivery to the private sector.

In my view, the issue is about the information necessary to assess and decide how that trade-off should be resolved. The issue is not about outsourcing or privatisation per se but about achieving value for money outputs and outcomes and meeting the accountability requirements of the Government and the Parliament. Any trade-off between those two requirements is likely to be simpler in the non-core more commercially oriented segment of government and for 'commodity' type outputs whether services or products.

As the Secretary of the Department of Finance and Administration has said in relation to the issue of contracting out public sector services:

‘Our concern is to have a regime that protects the integrity of outsourced services, but does not make doing business with government so tied up with red tape and regulation as to lock businesses, including small businesses, out of the government marketplace.’ Boxall Peter, 1997. Canberra Bulletin of Public Administration, No. 86. December (page 8).

The notion of partnership is increasingly gaining acceptance, that is, the Commonwealth should be working in partnership with the private sector, or indeed
that public sector agencies should be working in partnership with each other and with private sector firms, for example through purchaser/provider arrangements, to deliver public services. Partnerships depend on common understanding, trust and goodwill not legal compulsion. However the reality is that there will be testing times even in the best of relationships. Consequently, it is good practice for such relationships to be based on sound tendering and administrative processes and an enforceable contract.

The contract must clearly specify the service required; the relationship between the parties needs to be clearly defined, including identification of respective responsibilities; and mechanisms for monitoring performance, including penalties and incentives, set in place. There should not be any equivocation about required performance nor about the obligations of both parties. I stress that this is as much about achieving the desired outcome as it is about meeting particular accountability requirements. Both require sound, systematic and informed risk management which recognises that:


Contracting, while providing the benefits of cost efficiency and enhanced service delivery, can expose the Commonwealth to increased risk. The Commonwealth is, in many cases, no longer directly responsible for program outputs, instead reliant on a private sector contractor for the provision of particular services or products. Nevertheless, the relevant agency/body is still accountable for those outputs. This is also Parliament’s expectation. The Senate Finance and Public Administration References Committee reinforced this concern as follows:

‘The Committee believes strongly that contracting-out of services should not diminish public accountability through the Parliament, the Auditor-General and what can be summarised as the administrative law - the role of statutory officers such as the Commonwealth Ombudsman, the operations of agencies such as the Administrative Appeals Tribunal and legislation such as the Administrative Decision (Judicial Review) Act. It has been suggested that contracting-out may improve accountability by requiring services to be defined more precisely and imposing service agreements on providers. That should be seen as a bonus not an alternative.’ Senate Finance and Public Administration References Committee 1997, ‘Contracting Out of Government Services’, First Report, Information Technology, Canberra, December, (page. Xxii).

The competent management of the contract is often the Commonwealth’s key means of control over its outputs and their contribution to outcomes. This is why it is essential that we ensure our staff have the capability and capacities to manage contracts effectively if we are to achieve the results required of us. But I again stress that it is not just skills in relation to
contracting that are important, there is still a high premium on knowledge and understanding of the functions/business that we are managing. Put simply, we have to be in a position to know what we are actually getting under a contract and whether it is meeting the objectives we set. If we do not, we are virtually risking the success of our agency and its very reason for being.
III. CORPORATE GOVERNANCE AS A TOOL FOR MAXIMISING ORGANISATIONAL PERFORMANCE

Improving performance is a primary focus of both the private and public sectors. It has been increasingly recognised in both these sectors that appropriate corporate governance arrangements are a key element in corporate success. They form the basis of a robust, credible and responsive framework necessary to deliver the required accountability and bottom line performance consistent with the organisation’s objectives. Barrett, P., 1999. ‘Seeking to Make a Real Difference: Confronting Long-Held Cultures and Attitudes’, Presentation to the Secretaries Forum, 10 March.

According to the findings of a survey conducted of over 100 major US investors good governance practice makes a difference that investors are prepared to pay for. Results indicated that US investors would be prepared to pay an eleven (11) to sixteen (16) percent premium for shares in a company that was well governed. Felton, R.H., Hudnut Alec and Heeckeren, J., (1996) Putting a Value on Board Governance, *The McKinsey Quarterly*, No. 4, (pages 170-175). These findings would appear to imply that, unless particular corporate governance practices promote improved performance and the achievement of the objectives of an organisation, they are not worth pursuing. The amount that should be paid for corporate governance will depend on the additional ‘value’ that it creates.

An indication of value comes again from a United States example where the Californian Public Employee’s Retirement System (CalPERS) undertook corporate governance efforts targeted at underperformers in their investment portfolio. A study of the improvements in returns from these efforts showed that sixty-two companies added $US150 million annually to their performance at a cost to CalPERS to run the program of less than $US500,000 per annum. The following observation was made by a Senior Board Member:


Airservices Australia, in its recent submission to the JCPAA inquiry into corporate governance and accountability arrangements for GBEs, summed up the essence of a performance based corporate governance approach as requiring:

‘... the Board to focus on both performance and conformance issues and to have in place a mechanism for assessing its own effectiveness as a Board and for assessing the contribution of individual directors. The Board’s focus shifts to a more strategic role, with more involvement in strategic planning and performance monitoring and less on day-to-day tactical issues.’ Airservices Australia, ‘Submission to the JCPAA Inquiry into Corporate
Corporate governance has, however, tended to come to prominence during difficult periods of the economic cycle. This happened in Australia coming out of the 1980s, and early 1990s, and is happening today in Asia, where poor corporate governance is seen to be a significant contributor to the Asian financial crisis.

Dunlop, I.T., 1999. ‘Governance and Related Issues: Some International Perspectives’, Address to IPAA/ASCPA/ANAO Seminar of Corporate Governance, Canberra, 30 July. The interest in corporate governance has, therefore, been typically viewed as a conformance matter with less attention being paid to its role in improving performance and, in particular, the strategic direction setting and performance roles of boards and CEOs. While the ANAO considers that there should be more attention given to the ways in which a sound corporate governance framework can, and should, contribute to better performance, there is no doubt top management will continue to focus on conformance issues where the operating environment so requires, particularly where there is seen to be risk to personal and corporate integrity and reputations. Such focus should, however, be considered within the context of the objectives and strategies of the organisation to ensure that unnecessary barriers to improved performance are not imposed.

In the private sector, the drive for better performance appears to be most advanced in the USA with the UK corporations and shareholders moving rapidly in the same direction. The main drivers for this focus on improved performance are seen to be the pension funds and their search for higher returns on capital for their shareholders. This shareholder activism is seen as an essential element for a healthy market economy. In contrast, recent research suggests that Australian institutions still tend to put a higher priority on conformance than on better performance. Ibid.

A key message of the Government’s reform agenda, as noted in my opening remarks, is that it is no longer considered appropriate for the APS to have a monopoly even in traditional service delivery areas such as policy advice and in the determination of welfare entitlements. It must now prove that it can deliver government services as efficiently and effectively as the private or non-profit sectors. This is reflected in the increasing emphasis being placed on the contestability of services; the outsourcing of functions which can be undertaken more efficiently by the private sector; and ensuring an orientation more towards outcomes, rather than processes, and to continuous improvement, to achieve required performance/results.

I think most would agree that, in the past, the tendency in the public sector has been to primarily focus on ensuring conformance with legal and procedural (including budgetary and financial) requirements, with attention to program outcomes and improved performance being a secondary consideration. Consequently, there have been reasonable administrative control processes put in place for government policies and procedures over many years. In particular, as public servants, we have been particularly concerned to ensure that we have met
the requirements of relevant legislation. And there has been a marked emphasis on fraud control and probity concerns.

On the other hand, we have not been as effective in constructing robust control structures aimed at assuring that we achieve defined outputs and outcomes, nor in providing efficient client-oriented services. Attention is now being given to addressing government programs/services directly to public sector clients, as citizens, and not the other way round. This focus is being reinforced by the requirement for Public Service Charters which should clearly signal to all concerned just what various client groups can expect of an agency and its staff. While the program management and budgeting framework has required us to address such issues over the last decade or so, it is likely that the move to accrual-based budgeting for outputs and outcomes will be the catalyst that ensures we have the necessary information links in place. And that is also how we will be judged at the end of the day.

The changed budgeting arrangements are going to put further pressure on managers to define more clearly measurable, or at least assessable, performance outputs and outcomes. This will require greater attention to costing and pricing methodologies including the rediscovery, for many of us, of management and cost accounting. Importantly, it will mean that managers generally at all levels will have to become at least familiar with such concepts, methods and techniques. As has already occurred, there will be a greater focus on financial reporting on an accrual basis and the links with the costing structures both for internal and external information. The challenge is more for managers than accountants in coming to grips with this environment. Nevertheless, the latter have an important training and facilitating role to help the former do so.

Under the current public sector reforms, the public sector is subject to increased levels of scrutiny of its performance and effectiveness. A culture of ongoing performance assessment is therefore important to maintain Parliamentary and public confidence in the public sector. Barrett, P., 1999. ‘Auditing in Contemporary Public Administration’, Public Seminar Series, Graduate Program in Public Policy, ‘Democratic Governance: Improving the Institutions of Accountability’, The Australian National University, 17 May. The establishment of a performance culture supported by clear lines of accountability is an essential part of the government's approach to reform in the APS. Such a culture will provide the discipline and integrity required to undertake credible benchmarking, market-testing and pricing reviews for agency and entity outputs in the budget context as part of resource and performance assessment.

Performance information is a critical tool in the overall management of programs, organisations and work units. It is important not as an end in itself, but in the part it plays in managing effectively and has an expanded role in the new ways of delivering public services as a means of protecting Commonwealth and public interests. It is therefore a key component of good corporate governance. Performance information fits within the wider management framework that includes objectives, strategies for achieving objectives and mechanisms for collecting and using such information. The latter is essential for assessing the impact of identified risks as well as to assist management to take timely action to
deal pro-actively with identified risk whether by turning it to advantage or implementing credible preventative measures.

One initiative that has been introduced for Government Business Enterprises (GBEs) to strengthen the management framework and parliamentary oversight in terms of performance is the requirement for GBEs to prepare and table in Parliament, annually, Statements of Corporate Intent (SCIs). SCIs are brief, high level, forward looking documents, expressed in terms of outputs or outcomes. They normally contain a statement of accountability (including reporting obligations), business descriptions, objectives and broad expectations of financial and non-financial performance. They do not, however, contain commercial-in-confidence information. SCIs are intended to provide greater clarity for Parliament, the responsible Minister(s), the board and management as to the framework within which a GBE is to operate, and about its operating activities. As such, SCIs complement the usual ex-post performance information provided in say, annual reports. Op. cit., Department of Finance and Administration, 1999, ‘Submission to the JCPAA Inquiry into Corporate Governance and Accountability Arrangements for Commonwealth GBEs’. Similar statements have been included, or could be considered for inclusion, in other agency and entity reports for similar reasons.

Having developed the mechanisms to allow the assessment of performance, it is important that we use our performance information for ongoing monitoring as well as for ‘point in time’ assessment and reporting. Ongoing monitoring at different levels in the organisation assists to ensure that our program is on the right track and that we are using our resources in such a way so as to maximise outputs and related outcomes. Such checks also provide assurance to top management as well as allowing them to take timely, strategic action if performance is not satisfactory.

In reporting on outputs and outcomes, say to the CEO/Board or to the Parliament, performance reports should be balanced and candid accounts of both successes and shortcomings. They should have sufficient information to allow the Board or the Parliament (and even the public) to make informed judgements on how well an organisation is achieving its objectives. Reports should include information on performance trends and comparisons over time rather than just a snapshot at a point in time which may be misleading.

I see the move towards both accrual budgeting and reporting as an important element in assisting departments and agencies to develop useful performance information systems. It will help agencies to become more outcome-focussed in reporting, providing improved information to both agency management and the Parliament and encouraging an effective Corporate Governance framework.

Op. cit., Barrett, P., ‘The Convergence of the Public and Private Sectors – Accountability versus Efficiency’. This heralds the need for management to develop more sophisticated information systems that will incorporate improved forecasting and decision-support tools.

Despite the greater involvement of the private sector, performance assessment in the APS continues to be more than just about a financial bottom line. Assessments typically cover a range of measures, both quantitative and
qualitative. For example, an agency or entity has to be accountable for the implementation of the Government’s requirements with respect to public sector reforms and for meeting relevant legislative, community service and international obligations; for equity in service delivery; and for high standards of ethical behaviour. This point has been recently emphasised by Max Moore-Wilton, Secretary, Department of the Prime Minister and Cabinet, as follows: Moore-Wilton Max, 1999. Address at the Presentation of the 1997-1998 Annual Report Awards. Institute of Public Administration (ACT Division), Canberra, 27 April. (page 3).

‘Ministers and Departments do have an obligation not just to achieve the bottom line that is often the key outcome sought by private companies. We owe it to the community to establish public trust that we work with integrity and put public interest ahead of personal gain. Ensuring the transparency of our processes can focus our minds on the need for each individual decision we take to be justifiable in terms of strict propriety.’

In order to accurately assess performance, we will need to identify both the financial and non-financial drivers of agency business. This will involve the use of techniques such as the balanced scorecard approach promoted in the Management Advisory Board’s (MAB) publication ‘Beyond Bean Counting’ (December 1997). In MAB’s words:

‘The scorecard ... complements the financial measures with operational measures on customer satisfaction, internal processes, and the organisation’s innovation and improvement activities - these operational measures are drivers of future financial performance’.

(page 50)

The scorecard approach underlines the importance of the various linkages and their understanding and management such as between strategy and operations, budgets and performance. It also requires that attention be given to measuring performance where practicable and to articulating a credible basis for assessing qualitative or so-called ‘soft’ indicators of success. A parallel is the distinction between price and value for money.

Australia is not alone in grappling with the development and use of sound performance information, particularly in the light of the rapidly changing operating environment. Significant developments have been occurring in New Zealand, the United States of America, Canada, the United Kingdom and in a number of European countries such as France and Sweden. Many countries are now actively sharing experiences on deriving suitable performance information for accountability purposes. Moreover, we would do well to heed comments such as those made by the Clerk of the Privy Council and Secretary to Cabinet in her Annual Report to the Prime Minister on the Public Service of Canada:

‘Public servants want to meet citizens’ expectations and are ready to remove barriers to more effective service delivery, but it must be done in a manner that is true to the roles and values of the public sector’. Bourgon, Jocelyne 1997. ‘Fourth Annual Report to the
With the greater convergence of the public and private sectors there will be a need to focus more systematically on risk management practices in decision-making that will increasingly put demands on suitable cost, quality and financial performance. Similar pressures will come with the advent of the move to electronic commerce and the greater use of the internet for business purposes. In turn, these will put increasing pressure on management of our information systems and systems controls. Good corporate governance should ensure that not only are the needs of the individual managers for useful information met effectively, but also that timely and relevant corporate information is provided to allow an assessment as to whether results are consistent with agreed corporate requirements and add to overall corporate performance.

IV. ELEMENTS OF BETTER PRACTICE IN CORPORATE GOVERNANCE AND THEIR LINKS TO HIGH LEVEL PERFORMANCE IN ACHIEVING REQUIRED RESULTS.

The pressure on the Commonwealth government to provide more services with less has led, in part, to the introduction of private sector approaches to the structure of government businesses including, for example, the appointment of Boards of Directors. This has focused attention on corporate governance but, I hasten to add, not just for commercially oriented government organisations but also for APS agencies generally. Accountability structures, such as those used in the private sector, are increasingly important in all government agencies as part of the recognition of the requirement to act more commercially with a greater focus on results.

Corporate governance is largely about organisational and management performance. Effective public sector governance requires leadership from the executive management of agencies and a strong commitment to quality control and client service throughout the agency. It is concerned with structures and processes for decision-making and with the controls and behaviour that support effective accountability for performance outcomes/results.

It is important to recognise the basic differences between the administrative/management structures of private and public sector entities and between their respective accountability frameworks, that is, shareholders, Board, and CEO (in the private sector) versus Minister, CEO, (and possibly) Board (in the public sector). The political environment, with its focus on checks and balances and value systems that emphasise ethics and codes of conduct, implies quite different corporate governance frameworks from those of a commercially-oriented private sector. It is equally important to recognise that the diversity of the public sector itself requires different models of corporate governance within that sector. That is, one size does not fit all even though there will be common elements of these models both in the public and private sectors.
There are a number of basic components of well run organisations. Clearly, one important element is the quality of the company’s leadership – the good sense and integrity of its officers and directors - who should have keen and inquisitive minds and be able and willing to spend time in mastering the essentials of their brief as corporate leaders. Many commentators have noted the importance of ‘tone at the top’ not least of all the American General Schwarzkopf in Brisbane last May. MacDermott Kathy 1999, “Norman’s ‘Mission: Educational’”, Australian Financial Review, 24 May (page 5).

A culture of ethical behaviour is particularly important in the APS because of the discretion inevitably involved in the development and implementation of public policy and dealing with people and citizens in a democratic society. A particular point to note is that the financial legislation which I spoke of earlier places an onus on individuals, either the CEO or board members, to exhibit ethical behaviour in an organisation. The Financial Management and Accountability Act 1997 specifically requires CEOs of government departments and agencies to promote ethical behaviour (section 44).

The values, standards and practices which underpin corporate governance in public sector agencies flow from peak APS values, obligations and standards, which in turn are derived from legislation, policy and accepted public service conventions. In 1996 MAB/MIAC outlined these APS values, obligations and standards in its paper, Ethical Standards and Values in the APS. MAB/MIAC 1996, ‘Ethical Standards and Values in the Australian Public Service’, Report No. 19, AGPS, Canberra, May. As part of its March 1998 administrative reforms, the Government included a newly articulated set of APS values in legislation through amendments to the Public Service Regulations. Public Service Regulations (Amendment – Interim Reforms) 1998. ‘The APS Values’. Regulation 5, 15 March. More recently, the Public Service and Merit Protection Commission released a publication on the new APS Values to assist agencies with advice and guidance on how the values might be applied in the workplace. Public Service and Merit Protection Commission 1999, ‘Values in the Australian Public Service’, Implementing Change 4, Canberra. The new APS Values are a key element in the Government’s public sector reform program and have been introduced through amendments to the Public Service Regulations. The following are some of the Values that agency heads are required to uphold and promote within their organisations:

- the APS is apolitical, performing its functions in an impartial and professional manner;
- the APS has the highest ethical standards;
- the APS is accountable for its actions, within the framework of Ministerial responsibility, to the Government, the Parliament and the Australian public;
- the APS delivers services fairly, effectively, impartially and courteously to the Australian public; and
- the APS focuses on achieving results and managing performance.
The Regulations require agency heads to integrate these values into the culture of their agency and the Public Service Commissioner to report annually on how successfully this had been achieved. My own agency, to take one example, has as its key values independence, objectivity, professionalism, and knowledge and understanding of the public sector environment. These values are guided by the ANAO Code of Conduct which has been developed within the framework of the new APS values and the APS Code of Conduct, together with the Codes of Ethics promulgated by the professional accounting bodies.

The alignment between these core APS Values and those of a contractor are particularly important in any outsourcing arrangement. Such alignment is essential if there is to be a genuine partnership arrangement in place, particularly where an organisation’s core business is involved. However, as observed by the well known author and academic Peter Hennessy:

‘Pieces of paper are one thing, real belief systems quite another. It is very hard to export the public service ethic into the private contractor hinterland. Commercial contracts are not susceptible to a foolproof, public service ethical override’. Hennessy Peter 1997, ‘The Essence of Public Service’, The 1997 John L. Manion Lecture. Reprinted in the Canberra Bulletin of Public Administration, vol no. 85, August, (page 5).

The issues of openness and transparency have to be accepted as essential elements of public sector accountability. The public sector has to act both in the public interest and, in common with the private sector, to avoid apparent personal conflicts of interest to the maximum extent possible. These will be particular challenges for agency managers in establishing credible corporate governance frameworks within public sector agencies that are increasingly being asked to act in a more private-sector manner while maintaining public accountability.

In recognition of the need for good corporate governance in the public sector, the ANAO in July 1997 circulated a discussion paper, Principles for Core Public Sector Corporate Governance: Applying Principles and Practice of Corporate Governance in Budget Funded Agencies. Australian National Audit Office 1997, ‘Principles for Core Public Sector Corporate Governance’, Discussion Paper, Canberra, June. This paper was designed to fill the gap in core public sector awareness of the opportunities provided for improved management performance and accountability through better integration of the various elements of the corporate governance framework within agencies. As well, the paper included a checklist designed to assist Chief Executive Officers (CEOs) to assess the strengths and weaknesses of their agencies’ current governance framework. Although the discussion paper was not meant to provide a comprehensive model for each agency, CEOs should be able to identify those elements of a governance strategy most applicable and useful to their particular agency.

It has been suggested that good corporate governance is based on the premise that corporate officers operate best when they are held to account for what they do. “Watching the boss: A survey of corporate governance,” The Economist, 29 January 1994, (page 18). Accountable individuals know that they must be prepared to defend their decisions – that they have accepted responsibility for the
decisions that they make. In short, accountability provides a way of measuring performance in a practical operational manner that makes sense to those involved.

However, accountability also implies acceptance of responsibility. To date in the public sector, there has not generally been clarity on the extent of a public sector employee’s, officer’s, CEO’s, board member’s etc., accountability for implicit or explicit action that can affect the citizen. However, the onset of reforms is increasingly raising awareness of, say, legal accountabilities, just as in the private sector. But there is also recognition of the innate complexities of public accountability with its multi-faceted approach that has to be managed at all levels of an organisation.

In the United States, the push for greater accountability of public servants received a sharp nudge in late 1997 when the Chairman of the Ways and Means Committee, William Archer put forward a proposal giving citizens the right to sue the Internal Revenue Service (IRS). His declaration that “we will make it easier for taxpayers who are wrongly accused by the IRS to recover their legal costs…” and that too often “the defenseless and the weak become targets for the IRS audits,” was an important step toward greater public recognition not only that the regulator and the public servant are accountable in theory but that damages caused by them are quantifiable and are actually reclaimed. “Let Taxpayers sue IRS – House tax chief,” Reuters, 11 October 1997.

Defining Roles and Responsibilities

One of the most important components of robust accountability is to ensure that there is a clear understanding and appreciation of the roles and responsibilities of the relevant participants in the governance framework, importantly, of the responsible Minister(s), a Board and a CEO. Furthermore, the absence of clearly designated roles weakens accountability and threatens the achievement of organisational objectives.

Good corporate governance in both the public and private sectors requires clear definitions of responsibility and a real understanding of relationships between the organisation’s stakeholders and those entrusted to manage its resources and deliver its outcomes. In a complex operating environment, such as is evident in the APS, these requirements become that much more important for both accountability and performance to a range of stakeholders. Good corporate governance is based on a clear code of ethical behaviour and integrity which is binding on management and staff and communicated to stakeholders. Such a culture is also essential for the establishment of sound risk management approaches and the confidence it can give to those stakeholders in the organisation and in what it does. Repeating, a robust accountability approach which encourages better performance through sound risk management is integral to any corporate governance framework.Barrett, P., ‘Corporate Governance and Accountability for Performance’, for A Joint Seminar Conducted by IPAA and the ASCPA on ‘Governance and the Role of the Senior Public Executive’, Canberra, August 1997.
Any discussion of corporate governance within the private sector and, indeed, for Commonwealth Authorities and companies, usually begins with a discussion of the role of the Board of Directors, who have a central role in corporate governance. This was clearly indicated as follows by Sir Ronald Hampel’s Committee on Corporate Governance which has been extensively quoted in governance papers and discussions:

‘It is the Board’s responsibility to ensure good governance and to account to shareholders for their record in this regard.’ Hampel Sir Ronald, 1998. ‘Final Report – Committee on Corporate Governance’. U.K., January (page 14).

In the private sector, there is a clearly defined relationship structure between the main parties. That is, the generic private sector governing structure consists of a board of directors, including the chairperson of the board, and a CEO responsible for the ongoing management of the agency. Op. Cit, Barrett, P., ‘Risk Management as Part of the Initiatives for Greater Public Sector Accountability’. However, this model is not readily transferable to the public sector, even with GBEs, because of the different roles and relationships between the responsible Minister(s), the CEO and (possibly) the Board. As well, Australian citizens (stakeholders) have no choice as to their investment.

It is important to recognise the distinction between agencies that are governed by the CEO, possibly with the assistance of a board of management in an advisory capacity, and those organisations that have a governing board to which the CEO should preferably be accountable, such as Commonwealth authorities and companies (including GBEs). The latter, of course, have more in common with the private sector. They also have added complexities as a result of the additional party in the accountability chain. Organisations will need to tailor their governance practices to take account of such differences.

I should mention here another apparent difference between the public and private sectors which is reflected in a public sector organisation’s relationship to its stakeholders. Private sector approaches tend to focus primarily on shareholders, while recognising other stakeholders such as employees, customers, suppliers, creditors and the community. This can be illustrated by the US Business Roundtable’s view that:

‘… the paramount duty of management and of boards of directors is to the corporation’s stockholders; the interests of other stakeholders are relevant as a derivative [my underlining] of the duty to stockholders.’


Richard Humphry, Managing Director and CEO of the ASX, expressed a similar view in a recent breakfast address. Humphry, R.G., 1999. ‘Corporate Governance Lessons from the Private Sector’, Address to the joint ANAO/ASCPA/IPAA Seminar on Corporate Governance Principles for CAC Bodies, Canberra, 30 July. In his view, a private sector board would be abrogating its fundamental responsibility to its shareholders if it responded to issues in a manner that went beyond the traditional internal focus on
shareholders. While I agree that a board’s primary responsibility should be to its shareholders, I would suggest that concepts of greater social and community responsibility are increasingly being embraced by the private sector, as a matter of course. Boards are beginning to recognise that being seen as ‘good corporate citizens’ is integral to the long-term viability of an organisation and, therefore, in the interests of shareholders.

While, in the public sector, we can identify citizens in a similar role to shareholders, in practical terms boards, CEOs and management have to be very aware of their responsibilities to the government (as owners or custodians and regulators), to the Parliament (as representatives of citizens and legislators) and to citizens (as ultimate owners as well as in their particular client roles as citizens).

The recently released ANAO discussion paper entitled "Corporate Governance in Commonwealth Authorities and Companies" Australian National Audit Office 1999. ‘Corporate Governance in Commonwealth Authorities and Companies – Principles and Better Practices’. Canberra, May., suggests that there may be opportunities to formalise relationships between the Board, the CEO, including management, and responsible Minister(s), perhaps through the development of a Board Charter. Alternatively, written agreement or memorandum of understanding could be prepared outlining roles and responsibilities as is done, say, in New Zealand.

In Commonwealth authorities and companies, even though the Board is responsible for directing and controlling the organisation on behalf of the stakeholders and is ultimately accountable for its own performance as well as that of the organisation, it is important to note that, to maximise performance within an organisation, requires an effective ‘partnership’ between the Board and management in guiding organisation strategy and performance. Similarly, CEOs of government departments and agencies will need to ensure effective partnerships with senior management if they are to effectively govern their organisations.

Thus, the threshold requirement of sound governance must be agreement between the key parties, whether this is the board and management (including the CEO) or the CEO and management, on the broader corporate objectives. These parties should jointly develop the corporate objectives which the CEO is responsible for achieving.

In Strictly Boardroom, the book on governance edited by Fred Hilmer in 1993, the relationship was summed up as follows:

“The key role of the Board is to ensure corporate management is continually striving to achieve above average performance taking account of risk.” Independent Working Party into Corporate Governance (Chair: Frederick G. Hilmer) 1993, ‘Strictly Boardroom’, Business Library, Melbourne.

This observation bears on the twin focuses of corporate governance, that is, performance and conformance. Earlier I referred to emerging views about whether there should be more emphasis on the former rather than the latter,
particularly given the focus on conformance to date driven by concerns about risk in a more contestable environment. The issue is to establish a realistic balance between the two that reflect the circumstances and strategic requirements of the organisation. It is simply another reflection of the fact that, with corporate governance, ‘one size does not fit all’.

**Risk and Control as part of an Integrated Corporate Governance Framework**

An effective corporate governance framework assists an organisation to identify and manage risks in a more systematic and effective manner. A corporate governance framework, incorporating sound values, cost structures and risk management processes can provide a solid foundation on which we can build a cost effective, transparent and accountable public sector. As one expert opinion puts it:

‘Corporate governance is the organisation’s strategic response to risk.’


The devolution of authority and accountability to agency heads, from various public sector reforms over the last fifteen years and particularly the recent changes to financial and industrial legislation, together with contracting out and contestability, has significantly increased the risk profile of agencies as I pointed out earlier.

The public sector must manage the risks inherent in this new ‘market oriented’ environment if it is to achieve the levels of performance required and satisfy whatever accountability requirements have been determined. More than ever, this situation will require a formal, systematic approach to identifying, managing and monitoring risk. The intuitive, and often reactive, approach to managing risk that has characterised public sector management in the past will not be sufficient. We all know that reacting ‘after the horse has bolted’ is often quite costly and damaging to the credibility of agencies and Ministers. A more strategic approach is required to stay contestable in such an environment. This is a significant management challenge.

The growing recognition and acceptance of risk management as a central element of good corporate governance and as a legitimate management tool to assist in strategic and operational planning has many potential benefits in the context of the changing public sector operating environment. Such an approach encourages a more outward looking examination of the role of the organisation, thereby increasing customer/client focus, including a greater emphasis on outcomes, as well as concentrating on resource priorities and performance assessment as part of management decision-making. The risk management framework is also a useful means for management to be assured of this approach, including being able to defend their decision-making publicly.

My view of risk management is that it is an essential element of corporate governance underlying many of the reforms that are currently taking place in the public sector. It is not a separate activity within management but an integral part
of good management process, particularly as an adjunct to the control environment, when we have limited resources and competing priorities. Against the background of the increasing use of a range of different service delivery arrangements; greater involvement of the private sector in the provision of public services; and with a more contestable/competitive market-oriented imperative risk management can only become more critical.

Risk management is primarily the responsibility of the CEO and/or board. Effective governance arrangements require directors to identify business risks, as well as potential opportunities, and ensure the establishment, by management, of appropriate processes and practices to manage all risks associated with the organisation’s operations. Op. cit., Department of Finance and Administration, 1999, ‘Submission to the JCPAA Inquiry into Corporate Governance and Accountability Arrangements for Commonwealth GBEs’.

To be effective, the risk management process needs to be rigorous and systematic. MAB/MIAC 1996, *Guidelines for Managing Risk in the Australian Public Service*, Report No. 2, AGPS, Canberra, October. If organisations do not take a comprehensive approach to risk management then directors and managers may not adequately identify or analyse risks. Compounding the problem, inappropriate treatment regimes may be designed which do not appropriately mitigate the actual risks confronting their organisations and programs. Recent ANAO audits have highlighted the need for:

- a strategic direction in setting the risk management focus and practices;
- transparency in the process; and
- effective management information systems.

Management of risk in the public sector involves making decisions that accord with statutory requirements and are consistent with APS values and ethics. This means that more, rather than less, attention should be devoted to ensuring that the best decision is made. This will require placing emphasis on making the ‘right rather than quick decisions’. That said, with the increased convergence between the public and private sectors, there will be a need to consider a private sector point of view where the focus on cost, quality and financial performance is an important aspect of competing effectively.

Complementary to a sound risk management approach is a robust system of administrative control. Late in 1997, the ANAO released a publication entitled ‘Control Structures in the Commonwealth Public Sector - Controlling Performance and Outcomes : A Better Practice Guide to Effective Control’. ANAO 1997 ‘Control Structures in the Commonwealth Public Sector - Controlling Performance and Outcomes’: A Better Practice Guide to Effective Control, Canberra, December. Control was broadly defined as ‘a process effected by the governing body of an agency, senior management and other employees, designed to provide reasonable assurance that risks are managed to ensure the achievement of the agency’s objectives.’ The emphasis is on a more systematic approach to decision-making to manage, rather than avoid, risk. A good example is the growing use of computer-oriented rulebase (or expert) systems, particularly to administer ‘complex legislative and policy material’. Johnson Peter and
The notion of a control environment has to start from the top of an agency. To be effective it requires clear leadership and commitment. This imperative is reinforced by the interrelationship of risk management strategies with the various elements of the control culture.

The adoption of a sound and robust control environment at the top of an agency will strongly influence the design and operation of control processes and procedures to mitigate risks and achieve the agency’s objectives. The clear intent and message to staff should be that such processes and procedures should be designed to facilitate rather than to inhibit performance. This approach should be promoted as good management. In short, the control environment is a reflection of management’s attitude and commitment to ensuring well controlled business operations that can demonstrate accountability for performance.

It is useful to point out here that audit committees provide a complementary vehicle for implementing relevant control systems incorporating sound risk management plans. This view is shared by the private sector where corporate representatives have agreed that effective audit committees and risk management plans are an indication of best practice and markedly improve company performance, including decision making. The internal auditing function of an organisation plays an important role in this respect by examining and reporting on control structures and risk exposures and the agency’s risk management efforts to the agency governance team.

An effective audit committee can improve communication and coordination between management and internal and well as external audit, and strengthen internal control frameworks and structures to assist CEOs and boards meet their statutory and fiduciary duties. The Committee’s strength is its demonstrated independence and power to seek explanations and information, as well as its understanding of the various accountability relationships and their impact, particularly on financial performance.

The CEO or the board of an organisation, together with senior management, are responsible for devising and maintaining the control structure. In carrying out this responsibility management should review the adequacy of internal controls on a regular basis to ensure that all key controls are operating effectively and are appropriate for achieving corporate goals and objectives. The entity’s executive board, audit committee and internal audit are fundamental to this exercise. Management’s attitude towards risk and enforcement of control procedures strongly influences the control environment.

I cannot overstress the importance of the need to integrate the agency’s approach to control with its overall risk management approach in order to determine and prioritise the agency functions and activities that need to be controlled. Both require similar disciplines and an emphasis on a systematic approach involving identification, analysis, assessment and monitoring of risks. Control activities to mitigate risk need to be designed and implemented and relevant information
regularly collected and communicated through the organisation. Management also needs to establish ongoing monitoring of performance to ensure that objectives are being achieved and that control activities are operating effectively.


The key to developing an effective control framework lies in achieving the right balance so that the control environment is not unnecessarily restrictive nor encourages risk averse behaviour and indeed can promote sound risk management and the systematic approach that goes with it. It must be kept in mind though that controls provide reasonable assurance, not absolute assurance that organisational objectives are being achieved. Control is a process, a means to an end, and not an end in itself. It impacts on the whole agency, it is the responsibility of everyone in the agency and is effected by staff at all levels.

The control structure will provide a linkage between the agency’s strategic objectives and the functions and tasks undertaken to achieve those objectives. A good governance model will include a control and reporting regime which is geared to the achievement of the organisation’s objectives and which adds value by focusing control efforts on the ‘big picture’. Public sector organisations will need to concentrate on the potential of an effective control framework to enhance their operations in the context of the more contestable environment that is being created as part of government reform policy.

The impact of technology on accountability and risk management

I would like to make a few comments regarding the role of Information Technology (IT) to support decision making and risk management within a cohesive governance framework, and also of the risks inherent in the management of IT systems themselves, particularly relating to the security of agency data in a contestable or outsourced service delivery environment.

The past decade has seen a radical transformation take place in the role of IT within organisations worldwide, not to mention the impact it has had on individuals’ lives. I know that my staff derive enormous benefit from the information about management and audit practice in Australia and elsewhere which they increasing obtain from the Internet, amongst other sources. This increased ability to capture and store information has, however, created problems with the ability of organisations to sift, disseminate, interpret and use the vast amount of information currently available.

An example of the use of IT systems as ‘enabling technology’ that provides quality information to assist in decision-making can be seen in the increasing use by Commonwealth Government agencies of rulebase decision systems (or expert systems) to administer complex legislative and policy material. While the widespread adoption of rulebase systems to support administrative decision-making has been foreshadowed for some years, the recent adoption of such systems by agencies such as the Department of Veteran’s Affairs, Defence and Comcare indicates that they will be increasingly used to support, control and improve administrative decision-making based on legislative or policy rules. Indeed, the introduction of such technology is being considered by the Australian
Taxation Office and has been identified by Centrelink as a major part of its new service delivery model.

A recent paper on this topic identifies both opportunities and risks associated with the use of rulebase systems. Johnson Peter and Dayal Surendra, 1999, ‘New Tricks - Towards Best Practice in the use of Rulebase Systems to Support Administrative Decision-Making’, paper presented to a Seminar of the Institute of Public Administration Australia, Canberra, April, (page. 1). There is a need to balance both in order to make the most effective use of this technology. Opportunities include improvements in the quality, accuracy and consistency of decisions and administrative processes, and hence improved client service. Such opportunities may be realised as a result of managing, reducing and removing different risks from aspects of the decision-making process by providing staff with access to information relevant to their decisions. The risks involved relate to the complex IT development processes needed as well as the lead times involved in system development, the potential for a loss of staff skills and knowledge of policy over time and an over-reliance on IT systems to produce the right answer every time.

Importantly, the authors assert that such systems cannot be introduced in isolation and should be accompanied by a broader redesign of the decision-making process and environment, including changes to service delivery arrangements, work structures and practices, staff skill sets and quality control practices. This type of technology does not replace the need for judgement or skills on the part of staff. However, it does provide a new model for decision-making based on a risk management perspective.

It remains to be seen to what extent this technology will be useful to public sector agencies in the future. However, it is interesting to note that these systems may provide an effective means of further reducing an agency’s reliance on the retained knowledge of individuals in the organisation. This has been a significant issue for the public sector in recent years where we have seen an enormous drain on the retained knowledge of the Service through the departure of many experienced individuals. While improvements in information collection, maintenance and access technology will help to address this to some extent, expert systems, which are capable of encoding this experience, greatly reduce the reliance on retained staff knowledge. Nonetheless, I do not think there will be a total substitute for the perception and judgment of key people. Whatever the systems used, these will be aids in the decision-making process to assist the manager to make better decisions.

The move to electronic commerce and the greater use of the Internet for business purposes, will also put increasing pressure on management of our information systems and systems controls. Electronic commerce is, of course, a product of the Internet which “opens up the possibility of global, open system electronic commerce.” Sneddon Mark 1999, ‘Electronic Commerce’, Australian Company Secretary, May, Vol 51, No 4. I think that many people are interested in the opportunities presented by E-Commerce but constrained by their understandable reluctance to transmit unencrypted data containing credit card details across the Net. Ibid. Mark Sneddon reports on the efforts to replace early payment models that involved payment by credit card details being supplied by email or other
insecure means over the Net with some more recent mechanisms which offer more but not necessarily complete security. However, I note that, as reported by Professor Mark Sneddon, Special Counsel - Electronic Commerce for Clayton Utz, in the May 1999 issue of Australian Company Secretary, Ibid, Australian Company Secretary, (pages. 190-2). new Net payment mechanisms are being developed which ameliorate these risks. Nevertheless, a recent research survey Prodromou Angela 1999. ‘E-Comm: the next frontier’. Information Age - Editorial, May, (page. 1). of 309 companies in Australia and New Zealand indicated that 43 per cent of respondents indicated that security is a factor that had a high degree of influence on whether they moved into electronic commerce. The main reasons cited were identification and authentication and firewalls.

My office is currently undertaking an audit of the use of electronic commerce for business in Commonwealth agencies. The audit has been conducted by surveying agencies on their present use of technologies such as the Internet to conduct business and their expectations of what will be their position in 2001. You may be aware that the Prime Minister, in his Investing for Growth policy statement of December 1997, committed the Government to all appropriate services being deliverable on the Internet by 2001.

Delivery of Government services on the Internet has the potential to:
- give access to a wide range of government services to a large group of the population, including those in remote areas of Australia;
- give access to government services and information 24 hours a day and seven days a week;
- allow the public to navigate to the government information source without the need for prior knowledge of where to look; and
- be a relatively inexpensive form of service delivery compared with other forms.

Commensurate with the potential for improved service and reduction in costs is the increased risk in the following areas:
- the security of information transferred over the Internet;
- the privacy of information on individual or business; and
- the ability to authenticate the user requesting government services or financial assistance.

Recent ANAO financial statement audits have identified several emerging issues regarding the security and internal control mechanisms of IT systems in public sector agencies. IT supports various entity programs and can be integral to the validity, completeness and accuracy of financial statements. Consequently, the audit of IT systems and processes is fundamental to forming an opinion on the adequacy of proper accounts and records that support entities’ financial statements. The 1997-98 financial statements identified several IT control issues, including:
- system access rights found to be excessive or unauthorised;
inadequate review and approval of users’ access to systems;

- an external service provider having unlimited access which was not monitored; and

- inadequate review, approval and testing of changes to applications.


The need to focus on effective systems controls is further highlighted by a recent report of the Australian Institute of Criminology which indicates that the increased usage of information technology will lead to a major rise in white collar crime against governments. Gibbons Patrice, 1999. ‘New report warns of IT fraud’. Article in The Financial Review, 7 May. (page 12). Refers to Smith Russell G. 1999, ‘Defrauding Governments in the Twenty-first Century’. Australian Institute of Criminology, Trends and Issues in Crime and Criminal Justice, Canberra, April. (page 6). Allied to this concern are warnings about growth in the use of E-Mail not just in terms of adequate systems controls to prevent compromising network performance and the efficient conduct of functions or business but also the possibility of litigation where communications are not subject to executive review but could involve liability for the organisation. Braue David 1999. ‘Reducing the E-Mail risk factor’. The Sydney Morning Herald, 25 May, (page .3c).

Given the Government’s commitment to the expansion of electronic commerce in public sector business and service delivery, it is essential that robust security and privacy controls are considered and implemented. With the increased involvement of the private sector in the provision of public services, these are critical issues.

V. INTEGRATING CORPORATE GOVERNANCE APPROACHES WITH BUSINESS OPERATIONS

That brings me to how we might integrate corporate governance practices with business operations.

As many of you would know, there have been concerns expressed by Parliamentary Committees and by individual parliamentarians in debates about appropriate accountability mechanisms in an era of devolved authority. But this is not simply about administrative processes. It is primarily about attitudes of mind and a different public service culture. That is the underlying concern. It is necessary to ensure that the various elements of corporate governance can be drawn together in a way that the people involved understand and therefore support the need for a more cohesive approach to corporate governance.

The critical issue for establishing a sound corporate governance framework is not simply about creation of appropriate committee structures or the way in which they work. The requirement is to promote understanding and commitment and more disciplined systems which assist better communication and provide greater confidence and assurance across the organisation.

In the last decade, APS agencies have put in place many of the elements of good corporate governance. These include corporate objectives and strategies;
corporate business planning; audit committees; control structures, including risk management; agency values and codes of ethics; identification of and effective service to stakeholders; performance information and standards; evaluation and review; and a focus on client service to name just a few. However, too often these elements are not linked or interrelated in any way so that people in the organisation understand both their overall purpose and the various ways the various elements are linked to achieve better performance. This is also necessary to ensure that a mutually supportive framework is produced that identifies outcomes for identified stakeholders.

Therefore, the real challenge is not to define the elements of effective corporate governance but to ensure that all the elements of good corporate governance are effectively integrated into a coherent corporate approach by individual organisations and well understood and applied throughout those organisations. As Trevor Sykes of the Australian Financial Review stated in an interview with the Chartered Institute of Company Secretaries in Australia:

‘Expressing the sentiments of corporate governance is dead easy … What is going to be harder is making it work, putting flesh on the bones’. Australian Company Secretary, Vol.50, No.2, March 1998.

Concern has been expressed that there has been more emphasis on the form rather than the substance of good corporate governance. I want to stress that effective corporate governance is more than just putting in place structures, such as committees and reporting mechanisms, to achieve desired results. Such structures are only a means for developing a more credible corporate governance framework and are not ends in themselves.

However, there are positive examples of where both elements are being achieved contributing to greater understanding and commitment at all levels of the organisation. The work that the ANAO has previously done with Government Business Enterprises (GBEs), particularly Telstra, and with the Australian Tax Office (ATO) has clearly indicated the contribution that good corporate governance can make to an organisation’s performance and to the confidence of stakeholders. From the ANAO’s observation, the ATO’s governance framework has facilitated:

· achievement of corporate objectives;
· identification and management of risk (including determination of priorities); and
· promotion of high ethical standards; and
· clarity of various management roles and accountabilities.

These examples demonstrate that effective governance of agencies can provide a more robust, pluralistic and adaptable decision-making framework. The challenge for public sector CEOs is not simply to ensure that all the elements of corporate governance are effectively in place but that its purposes are fully understood and integrated as a coherent and comprehensive organisational strategy focussed on being accountable for its conduct and results.
Effective public sector governance requires leadership from the Board (where applicable), the CEO and executive management of organisations and a strong commitment to quality control and client service. An effective framework requires clear identification and articulation of responsibility and a real understanding and appreciation of the various relationships between the organisation's stakeholders and those who are entrusted to manage resources and deliver required outcomes. It should be based on a set of values including a clearly specified code of ethical and professional behaviour which is binding on management and staff and communicated to stakeholders. Such a culture is essential for the establishment of sound risk management approaches and the confidence it can give to stakeholders in the organisation and what it does. Public sector executives leading by example is perhaps the most effective way to encourage accountability and improve performance.

I have established that the concept of corporate governance is representative of a cohesive framework of interrelated elements. If implemented effectively it should provide the integrated strategic management framework necessary to achieve the output and outcome performance required to fulfil organisational goals and objectives.

Risk and control management are integral elements of a robust framework. In an environment that promulgates the notions of contestability, outsourcing and greater efficiency, the way that agencies implement their corporate governance framework, and particularly how they conduct their risk management, including the control of those risks, will be critical in determining how well the public sector can continue to meet its accountability obligations as well as its performance requirements. The private sector needs to do the same to remain viable.

Innovations in IT will also promote more cohesive governance frameworks. Our ability to effectively utilise IT systems to communicate and share information, to assist in decision-making and finally to deliver services improves are critical to our continued ability to deliver public services efficiently and effectively. To maximise gains, systems should not be introduced in isolation. Rather they should complement, among other things, changing work structures, practices and staff skill sets.

Many private sector and overseas public sector organisations have benefited from the use of decision-support and expert systems as part of their day-to-day decision-making activities. In an era of shrinking resources and a more competitive environment, it is important that Australian public sector agencies continue to explore the potential benefits of such technology as their circumstances change and the cost/benefit equation improves.

I again stress that good corporate governance is not a one size fits all proposition. This view has been supported by the Business Roundtable United States Business Roundtable, 1997, 'Statement of Corporate Governance', (page 4), and more recently by the OECD in its “Principles of Corporate Governance”. The OECD has emphasised that, to meet new demands and grasp new opportunities, corporations will need flexible and adaptive governance practices OECD 1999, ‘OECD Principles of Corporate Governance, May.’ Therefore, good public sector
corporate governance requires more than the prescription of particular corporate structures or compliance with a set of accepted rules.

Real benefits to an organisation come about as a result of the integration of the various elements of corporate governance in an holistic manner. Such an approach generates expectations of those whose responsibilities are made clear; creates reliance and demands that cannot be ignored; and promotes shared values and commitment to the objectives and required results (outcomes) of the organisation. As observed earlier, the test for each organisation is to achieve the appropriate balance in its overall conformance (assurance) and performance (results) as required by its various stakeholders and the environment in which it has to operate.

VI. CONCLUDING REMARKS

In summary, APS reform requires public servants to be more responsive and meet changing client needs; to be more efficient, effective and ethical; to be more flexible in responding to internal and external change; and to support national economic and other imperatives. These reforms are now well under way in all areas of the APS and touch most Australians in some form every day. The new challenges include market-testing, competitive tendering and contracting out, all of which may be considered to present opportunities for, as well as risks to, a public service which has traditionally said to be risk averse. These new elements are central to improved business performance and accountability in the current program of reforms to the public sector. However, the main message arising from experience to date is that savings and other benefits do not flow automatically from outsourcing - the process like any other, must satisfy a sound business case and be well managed.

Public sector managers, at all levels, have to deal with a different nature and level of risks in the more contestable environment confronting most of us than they have had to do in the past. Managing the risks associated with the increased involvement of the private sector in the delivery of government services, in particular the delivery of services through contract arrangements, will require the development and/or enhancement of a range of skills across the public sector and will be a key accountability requirement of public sector managers. Op. cit., Barrett, P., ‘Accountability for Risk in a Contestable Environment’. Recent changes to financial and industrial legislation have seen a shift from central agency control to a framework of devolved authority with enhanced responsibility and accountability being demanded of public sector agencies and statutory bodies. The impact of these reforms, combined with the provision of greater management flexibility and the requirement for greater personal accountability, have undoubtedly increased awareness of the need for a framework of corporate governance that matches the various reform demands.

In the context of public sector reform, the following comment captures a particularly important observation:
'It is critical that the Australian quest for reform not overshadow or extinguish excellence or best practice in the APS and the wider Commonwealth sector simply for the sake of change.'

For example, the APS has long prided itself on the maintenance of high standards of ethics in delivering services to the public. Whilst the 1996 World Competitiveness report did not rate Australia’s business managers highly, its public administrators were rated among the most professional and ethical. Success of this kind needs to be built on so the Commonwealth public sector can deliver services in an efficient, effective and responsive manner.’ Laine M.D. 1997. ‘International Themes in Public Sector Reform’. Department of the Parliamentary Library, Canberra.

Any discussion on corporate governance or changes for the future in the APS should look to build on these positive attributes.

The growing convergence between the public and private sectors gives focus to the distinctions between the two, while also offering opportunities for greater partnership and synergy between them. Private sector providers clearly feel under pressure from the openness and transparency required by the public sector’s accountability relationship with the Parliament and the community. Public sector purchasers for their part are under pressure to recognise the commercial ‘realities’ of operating in the marketplace. In my view, there needs to be some movement towards striking a balance on the appropriate nature and level of accountability and the need to achieve cost-effective outcomes. There are a number of realities to recognise, such as the following observation:

‘The private sector has no real equivalent to political accountability, for which precise measures are never likely to be found.’ Op.cit., Hughes Owen E., ‘Public Management and Administration - An Introduction’, (page. 229).

However, are these necessarily roadblocks to consideration of a different kind of public accountability? This is an issue basically for the government and the Parliament to resolve. In the meantime we have to deliver the ‘expected’ accountability by those stakeholders and seek the cooperation of private sector providers in doing so. Hopefully, this will be more likely to be in partnership mode where both parties understand and act on public interest and commercial imperatives that need to be met by public sector purchasers and private sector providers respectively. The notion of partnership should also extend to agency and entity cooperation and coordination, particularly on setting strategic directions and sharing of better practice.

I would argue that corporate governance provides the mechanism to bring all of this together - not simply to manage the risks but to transcend them. I said earlier that corporate governance becomes more pressing in a contestable environment because of the separation of core business operations and the outsourced service delivery elements. This is because a sound corporate governance framework assists business planning, the management of risk, monitoring of performance and the exercise of accountability. While we can, and should, learn from private
sector experience in such areas, public sector managers would do well to be mindful of the need for transparency and the interests of a broader range of stakeholders particularly when assessing and treating risk. We may not always be responsible for delivering public services but inevitably we will be held accountable for results achieved.

Good corporate governance should result in good performance. Whatever framework is put in place by organisations, it is important to ensure that it will facilitate the achievement of desired outputs and outcomes. Good processes are required to achieve good results. They are not alternatives. And they do not occur by accident. In relation to a recent survey of the United States Government’s Performance and Results Act 1997, the General Accounting Office (GAO) stated that:


Effective corporate governance in CAC bodies, and other organisations for that matter, is more than implementing structures to achieve desired results. It emphasises the importance of communication and up-to-date information both agency-wide and to all stakeholders. A key aspect of governance is to ensure that all participants are aware of, and accept, their responsibilities and accountabilities and that they have a sound understanding and appreciation of their practical importance in the public interest.

Therefore, an effective framework is very people oriented, involving better communication; a more systematic approach to corporate management, a greater emphasis on corporate values and ethical conduct; risk management; relationships with citizens and clients; and quality service delivery.

A well governed organisation will provide to its CEO, its Board, its responsible Minister(s) and other stakeholders reliable and well founded assurances that it is meeting its performance targets. Above all, a well governed organisation can achieve better performance and it will have a robustness, the internal cohesion and direction essential to successfully drive the organisation forward and to respond quickly and coherently to external conditions.

System and discipline are important means, as are understanding and commitment, to achieving required program outputs and outcomes. The latter are a significant challenge to managers at all levels of an organisation, particularly as the APS moves into a more accrual-based accounting and budgetary environment. We need to be ‘learning organisations’ and ensure we have a culture of continuous improvement accepted and embedded in our people.

A robust corporate governance framework will provide the necessary structures to encourage and facilitate such a culture and promote the confidence,
understanding and commitment of the whole organisation to what has to be done, and how it will be done, consistent with public service values and ethics.

We can learn from each others' practices, particularly in conferences of this kind, but there is no universal template or model. The two discussion papers produced by the ANAO have focussed on principles. The application of these principles is a matter for each agency and entity to determine in their own environments. However, experience shows that the effort is well worthwhile in terms of assurance and performance, not least in dealing with the greater complexities and risks facing public sector managers in an era of considerable public sector reform.