RISK MANAGEMENT AS PART OF THE
INITIATIVES FOR GREATER
PUBLIC SECTOR ACCOUNTABILITY

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Risk Management in the Public Sector
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I. INTRODUCTION

I was pleased to be asked to speak today at this conference which has the theme ‘Risk Management in the Public Sector…Driving Improved Business Outcomes’. My address is specifically about risk management as part of initiatives to improve public sector accountability.

The topic of risk management and accountability improvement is particularly interesting, not least because it throws into relief many of the current imperatives and interrelated challenges for the APS in managing risk. I have been asked to focus largely on aspects of the question ‘why risk management?’ I understand that other presenters today will deal mainly with the question ‘how to go about risk management?’ However, as the Australian National Audit Office (ANAO) has been doing a lot of work in the latter area, I thought I would at least indicate its nature latterly in the address as a fore-runner to other speakers.

Among the myriad of definitions the one I can particularly relate to is that risk management:

‘...is the term applied to a logical and systematic method of identifying, analysing, assessing, treating, monitoring and communicating risks associated with any activity, function or process in a way that will enable organisations to minimise losses and maximise opportunities.’

Some risks are under the control of an agency or entity; others are outside their control. Generic sources of risk include:

- commercial and legal relationships;
- economic circumstances;
- human behaviour;
- natural events;
- political circumstances;
- technology and technical issues;
- management activities and controls; and
- individual activities.

As with other elements of strategic management, we need to understand the environment in which our organisations are working if we are to identify, assess and properly prioritise the various risks confronting us. Consequently the first part of my address ‘Setting the Scene’ is largely about our changing public sector environment, particularly covering areas that are related to risk management. Indeed, change in itself can add to risks that need to be managed not least in the transformation of attitudes and behaviours of all those involved. And transformation is exacerbated by changes in the way we do our work and the tools we use such as information technology-based information systems.
I then outline three specific contexts that are highly relevant to the topic to illustrate a range of the ‘why’ issues as follows:

- corporate governance;
- control structures; and
- competitive tendering and contracting out (CTC).

These three contexts illustrate, in a fairly compact way, the powerful vehicles for risk management, improved business performance and accountability. Corporate governance provides 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 integrated elements of that framework. It is necessary to understand the various linkages between control, risk and the attainment of objectives in order to ensure we have a sound corporate governance framework. There is really no point in discussing each in isolation. As one expert puts it:

‘Essentially, control assessment and risk assessment are part of the same thing, the strategic management process.’

The last context concerning risk management and accountability in a contestable environment characterised by contracting out and competitive tendering is of particular interest to all of us at this time. This is because contestability and contacting out simultaneously represent one of the prime vehicles for improved business performance and accountability as part of the current reforms and which therefore also present particular performance improvement and accountability challenges for public service managers today. I note that the conference program provides for a case study on risk management in competitive tendering and outsourcing this afternoon. That session should be very thought-provoking and useful as a practical indication of the operation of a risk management approach in a demanding environment.

The final part of the address will outline some of the initiatives the ANAO is taking to enhance risk management (and improve accountability). These reflect our ‘risk management credentials’. Basically they are demonstrated in our business and audit strategies and range of products, and in the results of the audits we undertake. I will conclude with some summary comments and observations.

II. SETTING THE SCENE

The Australian Public Service (APS) has been steadily evolving towards a more private sector orientation over the last decade - more so recently as a consequence of the momentum of the National Competition Policy reforms and the Industry Commission inquiry into competitive tendering and contracting. The Government has made it clear that the challenge of public sector reform, including contestability with the private sector, remains both substantial and urgent. This was emphasised in a 1996 discussion paper by the then Minister for Industrial Relations and Minister
Assisting the Prime Minister for the Public Service, and reinforced in the new Public Service Bill (1997) which, unfortunately, has stalled in the Senate with the Minister now introducing some changes through regulations. In his second reading speech, the Minister highlighted that the Bill:

‘...will promote higher performance in the APS by devolving management responsibility to individual agencies and, at the same time, ensure that public interest objectives are maintained through enhanced accountability. ...The framework within which the conditions of employment in the APS are set will be similar to that in the private sector, but accountability for the conduct of that employment will recognise the distinctive character and ethos of the public sector. ...Part 4 of the Bill makes it clear that Agency Heads, on behalf of the Commonwealth wield all the rights, duties and powers of an employer.'

The Government has indicated that the new Public Service Bill has been designed to achieve maximum management flexibility while maintaining a high level of accountability. The new Public Service Bill will establish an interlocking system of powers and responsibilities, integrated within a genuinely devolved managerial environment. The then Public Service Commissioner in his last annual report observed that such an environment was characterised by:

‘transformation of the APS from a culture of administration emphasising process to a culture of management emphasising outcomes and evaluation of performance.’

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. However, it has also meant that even ‘core’ government services have become more contestable. In some instances the public service is being, or will be, put in a more directly competitive position with private sector providers.

The key message is that the APS is an important element of the government’s micro-economic reform agenda. One consequence is that it is no longer considered appropriate for the APS to have an unquestioned monopoly even in traditional service delivery areas such as policy advice and in the determination and provision of welfare entitlements. The APS must now prove that it can deliver government services as efficiently and effectively as the private, or non-profit, sectors.

A new emphasis has been placed on the contestability of services, the outsourcing of functions which the private sector can undertake more efficiently and on ensuring a greater APS orientation towards outcomes rather than processes and an accent on continuous improvement to achieve better performance. To indicate its commitment, the Government has also recently required APS managers to review their responsibilities and assess the cost-effectiveness of activities to determine how the performance of government activities can be improved. The thrust of the changes were summed up in a recent speech by the then Public Service Commissioner:
‘The task we face as a Service is to provide public services with the same efficiency and to the same quality standards as that provided by the private sector to consumers. Responsiveness to a competitive market is crucial to that objective. That is why we need to be contestable. That is why we should benchmark our performance against good practice and, if it is relatively poor, either lift our game or contract service delivery to a more efficient provider.’

Another important element of this changing environment has been the development of credible risk management approaches based largely on the MAB/MIAC Risk Management Guidelines and the Australian/ New Zealand Standard on Risk Management. This guidance becomes even more crucial in what has to be said to be a more risky environment with the greater involvement of the private sector in the provision of public services and with a more contestable/competitive market-oriented imperative. The difference is not just about a shareholder value/profit culture versus public interest concerns and more onerous accountability requirements of the public sector. It also includes legal and other imperatives with a more contractual framework and issues of ultimate responsibility by those concerned, including apparent divided loyalties. This issue is discussed further under the heading of ‘Operating in a More Contestable Environment’.

It comes as no surprise, I am sure, that our evolving system of public administration and the ability of agencies to work within cash limited budgets, depends on continuous improvement including, in particular, innovation. Innovation involves taking risks which need to be assessed and managed efficiently. The MAB/MIAC Guidelines for Managing Risk in the APS state that:

‘Risk arises out of uncertainty. It is the exposure to the possibility of such things as economic or financial loss or gain, physical damage, injury or delay, as a consequence of pursuing a particular course of action. The concept of risk has two elements, the likelihood of something happening and the consequence if it happens.’

The MAB/MIAC model presents the risk management process in a structured way involving six steps: establish the context, identify the risks, analyse the risks, assess and prioritise the risks, treat the risks and continually undertake monitoring and review. Although the MAB/MIAC model may seem to present the risk management process as six sequential stages, in practice it is not a matter of sequential steps. Certainly there are six separate and definable processes, but practically, information discovered at one stage may require the agency to return to previous stages. For example, a risk may not be accepted by an agency, but examination of the costs and benefits of various treatment options may result in the agency discovering that treatment is not a viable option. In this case a contingency may be developed and/or the agency may be forced to reassess the risk as being acceptable, to change priorities or transfer the risk (where appropriate).

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 for the APS. Such an approach
encourages a more outward-looking examination of the role of the agency or entity, 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 its approach, including being able to defend its decision making publicly.

To be effective, the risk management process needs to be rigorous and systematic. If agencies do not take a comprehensive approach to risk management then managers may not adequately identify or analyse risks. Compounding the problem, they may well design inappropriate treatment regimes which do not appropriately mitigate the actual risks confronting their agencies 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.

A high level of accountability is demanded of agencies and entities, with decisions of the former, in particular, largely open to public scrutiny. Such scrutiny is performed by the Auditor-General, the Ombudsman, the Privacy Commissioner and the Parliament, as well as other regulatory and review organisations. Chief Executive Officers (CEOs) should aim to ensure that decisions made using risk management are not based on ‘risky’ management practices. We need to be conscious that mistakes will be made and look to ensure that management learns from such mistakes and implements effective processes so as not to repeat any errors. Moreover, the more ‘market-oriented’ environment being created is inherently more risky from both performance and accountability viewpoints as I indicated earlier. To good managers, it is an opportunity to perform better, particularly when the focus is more on outcomes and results and less on administrative processes and the inevitable frustration that comes from a narrow pre-occupation with the latter.

The Changing Management Framework

This emphasis on risk management and accountability takes on greater meaning when seen in the context of the changing public sector management environment. That environment is largely being created by a changing legislative and reporting framework, which will impact markedly on the responsibilities of individual managers. This includes the replacement of the Audit Act 1901 by three new Acts with effect from 1 January 1998; the adoption of accrual accounting and budgeting over the next few years; the introduction of whole of government financial reporting on an accrual basis; the Charter of Budget Honesty, and the introduction of Service Delivery Charters.

The main vehicles that will be used to reshape the management responsibilities of the APS are the Workplace Relations Act 1996 and the Public Service Bill 1997. These will mean significant change for the industrial relations framework and the way the public service manages itself. The decision to replace the Public Service Act was
announced by the then Government in May 1995 following consideration of
recommendations made by the McLeod Review of the existing legislation. The new
Public Service Bill was introduced into Parliament in June 1997. It aims to make the
public service more efficient and accountable to the Parliament by establishing an
interlocking framework of powers and responsibilities, integrated with a genuinely
devolved managerial environment.\textsuperscript{20}

In the words of the previous Minister for Industrial Relations and Minister Assisting
the Prime Minister for the Public Service, the legislation will ‘remove its regulatory
prescription’ and be ‘much simplified and streamlined’. There has been general
agreement about a more ‘principles-based’ Act that supports a more flexible working
environment. In large part this will be determined as part of any workplace
agreements which are intended to be more reflective of similar arrangements being
generated in the private sector based on the \textit{Workplace Relations Act 1996}. The
following comments by the Minister are instructive on the issue of accountability:

\begin{quote}
‘It (the Public Service Bill) will promote higher performance in the APS
by devolving management responsibility to individual agencies and, at
the same time, ensure that public interest objectives are maintained
through enhanced accountability.’\textsuperscript{21}
\end{quote}

More recently, the Minister Assisting the Prime Minister for the Public Service
indicated that the agenda for public service reform being created by this legislation
comprises the following use of key elements:

\begin{itemize}
\item a committed leadership within a less hierarchical, more team-oriented structure;
\item better service to the public, based on the criteria of cost, quality, accessibility
and accountability;
\item better people management, relying on flexible and adaptable organisations and
an environment of trust;
\item better financial management, with accrual budgeting providing enhanced public
scrutiny of the real costs of government;
\item greater recognition and reward innovation; and
\item greater willingness to measure progress and results, market testing APS
efficiency and effectiveness against the standards of other businesses.\textsuperscript{22}
\end{itemize}

This contrasts with the ‘constraints of past complex, centralised processes and a risk
averse culture created by an outdated legal framework.’\textsuperscript{23}

The replacement of the \textit{Audit Act 1901} by three pieces of legislation provides a
renewed framework for the assurance of public sector accountability. The three Acts,
jointly provide the financial accountability mechanisms necessary to carry a modern
democratic state into the next century. They reaffirm and strengthen the
Auditor-General’s mandate in a more rapidly changing environment with
considerable devolution of authority and greater commercialisation of activities,
including service delivery activities. The three new Acts offer both opportunities for
enhanced performance but also greater management risks, particularly in an
environment of devolved authority. They consequently demand greater
accountability but place responsibility for it largely on CEOs and Corporate Boards.
These fundamental changes to the public service have wide ranging ramifications. The decrease in prescriptive legislative control is counter-balanced by an increased emphasis on accountability for resources and achievement of outcomes whilst maintaining the probity and fairness expected of the public service. In respect of the latter, I was interested to see a reported comment by the Minister Assisting the Prime Minister for the Public Service that:

‘Within this very complex environment the distinguishing feature and unique value of the public service is its role in providing ‘public interest’ policy advice.’

The impending introduction of full accrual budgeting and consequently, accounting into core Commonwealth agencies will place a far greater emphasis on financial management and facilitate greater transparency of the cost of program delivery in terms of outputs/outcomes. This heralds the need for management to develop more sophisticated information systems that will incorporate improved forecasting and decision-support analyses.

It is expected that a shift from traditional cash reporting to accrual accounting by agencies will provide more comprehensive information, an improved focus on performance and enhanced accountability at the program, departmental and whole of government levels. This should also help to improve risk management in the Commonwealth. For example by extending the assessment of performance beyond the use and application of cash, there will be greater accountability for financial and physical resources administered by Chief Executives, which should encourage more effective risk management of those resources. Accrual accounting will also make the financial impact of departmental and government decisions more visible and open to scrutiny. While I would wish to stress the positive aspects of the government initiative it clearly does put greater pressure on agencies to be more involved and take greater interest in issues such as cash and asset management, debt recovery, depreciation and attainment of revenue targets.

The National Commission of Audit supported the development of Whole-of-Government reporting, concluding that a full accrual accounting framework is an essential complement to the structural and cultural change the Government is seeking by way of a more competitive, efficient and effective public sector. The Government agreed that from 1996-97 onwards an audited Commonwealth financial statement should be prepared. After working with the Department of Finance and Administration (DoFA) on trial sets of accrual Whole of Government financial statements for 1994-95 and 1995-96, the ANAO recently completed the audit of the Consolidated (Accrual) Financial Statements for the Commonwealth for 1996-97. These have recently been released with a commentary on overall financial performance that reinforces improved transparency and consistency of information which will enable improved public sector management. Last year I observed that any report on such statements should provide credible information upon which more informed decisions can be made about the Government’s overall objectives and choices about the allocation of scarce resources to its various priorities and commitments.
The Government has also decided that in 1998-99 a trial of accrual budgeting for selected agencies will take place, leading to a full accrual framework incorporating an accruals Budget and quarterly accrual reports from 1999-2000. 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-focused in reporting, providing improved information to both agency management and the Parliament and encouraging an effective corporate governance framework.

**Insurable Risk Managed Fund**

The development of the new Insurable Risk Managed Fund arrangements is another expression of the increased attention being devoted to risk management in the APS and the significant initiatives being developed which support it. These arrangements will replace the Commonwealth’s current non-insurance policy.

The development of the new fund arrangements responds, among other things, to issues highlighted in the performance audit report on Commonwealth Guarantees, Indemnities and Letters of Comfort. That report indicated that there was:

- a need for improved recording and reporting of Commonwealth exposures;
- minimal risk management actions to limit future exposures; and
- the absence of positive economic incentives for agencies to apply formal management principles to controlling risk exposure.

The Commonwealth’s non-insurance policy provided limited incentive for managers to manage risks. It failed to provide sufficient:

- information on risk exposure;
- complete and accurate data on the cost of each Government activity;
- data on actual claims experience;
- incentives for managers to assess and reduce risks by changing management practices; and
- tools for managers to be innovative in managing their risks.

I understand that the Insurable Risk Managed Fund arrangements being developed provide for a single managed fund to cover all normal insurable risks (with formal pooling of risk, premiums and reinsurance) and require all Commonwealth agencies (including departments) and entities to participate, unless specifically exempted.

Although the new Managed Fund arrangements will necessitate additional reporting and oversight of the fund’s arrangements, on the positive side it will:

- require the full identification of risk exposures by each agency;
- place greater responsibility on CEOs for agency management;
• provide incentives for better risk management with the application of a claims sensitive premium;
• be a cost-effective and comprehensive approach to the management of risk exposures; and
• promote transparency and accountability;

I understand that DoFA is progressing with the development of arrangements with the aim to have the fund operating by 1 July 1998. The creation of such a fund is a timely reminder that failure to identify and treat risks properly and adequately is itself a significant risk for CEOs and public sector organisations particularly as the new financial legislation imposes personal and board accountability and responsibility obligations.

III. RISK AND CONTROL AS PART OF AN INTEGRATED CORPORATE GOVERNANCE FRAMEWORK IN A MORE CONTESTABLE ENVIRONMENT

Turning now to the three interlinked elements - ‘corporate governance framework’, ‘control structures’ and ‘risk management’ - in an environment of competitive tendering and contracting out (CTC) we will try to understand better the ‘why’ of risk management as an important element of our management approach under the current public sector reforms.

Corporate Governance

Corporate governance is basically about how an organisation is managed, its corporate and other structures, its culture, its policies, its performance and the ways in which it deals with its various stakeholders. It is an holistic concept depending very much on the integration of those various aspects to achieve effective governance of an organisation.

The following observation places these concerns within the context of managerial risk taking:

‘Corporate governance is the balancing of the need for managerial risk taking, entrepreneurial energy and high capability, with the need for some kind of monitoring, so that management’s direction is aligned with the interests of those who have entrusted their capital to the enterprise and to a lesser extent to the interests of other stakeholders.’

I am pleased to say there has also been relatively recent recognition of the similar need for good corporate governance in the public sector. While some public sector managers have been dubious about that need, others have been quite proactive and supportive of its explicit introduction. Clearly, many of the elements of corporate governance are not new to the public sector. These elements include corporate and business strategic and operational planning, control environments, relationships to stakeholders, performance information, public reporting and ethical conduct.
Corporate governance is an important link in the accountability chain. This is because good corporate governance requires clear definitions of responsibility and a clear understanding of relationships between an organisation’s stakeholders and those entrusted to manage resources and deliver its outputs and outcomes. Risks can be reduced by ensuring participants in the governance process are aware of their roles, responsibilities and accountabilities. A well governed agency can provide assurance to its CEO and all other stakeholders that, for example, performance targets are being met and the control environment is supportive of better performance.

In July 1997 the ANAO circulated a discussion paper, ‘Principles for Core Public Sector Corporate Governance, Applying Principles and Practice of Corporate Governance in Budget Funded Agencies.’ This discussion paper was designed to fill the gap in core public service 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 includes a checklist designed to assist CEOs to assess the strengths and weaknesses of their agencies’ current governance framework. While not meant to be a comprehensive model for each agency, CEOs should be able to identify those elements of a governance strategy that are most applicable and useful to their particular agency. The principles were applied in an audit of Aspects of Corporate Governance in the Australian Tourist Commission (ATC) which suggested a corporate governance checklist for the Board.

**Principles and Practice of Good Corporate Governance**

For core public service agencies, corporate governance is fundamentally about how we manage ourselves and our various relationships with those who have an interest or stake in the organisation and/or what it does. In particular, it is about providing assurances to stakeholders that we are keeping faith with the vision, role and values set out in the organisation’s Corporate Plan, as well as in any Code of Conduct that guides the behaviour of those involved. As well, the Corporate Plan has to reflect the Government’s policy directions and intent.

Corporate governance is also about the control and monitoring mechanisms that are put in place by organisations with the object of enhancing stakeholders’ value (broadly defined) and their confidence in the performance and integrity of the organisation. Competitive Tendering and Contracting (CTC) arrangements do not mitigate these principles. In fact they become more pressing and important because of the separation between core business operations and any outsourced service delivery elements. Consequently, the open disclosure of performance and financial information is critical to effective corporate governance within this evolving environment.

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*. In launching the publication, the Prime Minister emphasised the need to maintain a federal public service with ‘an extremely
high degree of integrity and honesty...free of corruption.' 36 Under the proposed Public Service Act, the APS is acknowledged to be apolitical, fulfilling its functions in an impartial, non-partisan and professional manner. Agency CEOs will be explicitly required to uphold key values of the public service. Another reference of interest in this respect is the United Kingdom Government’s endorsed ‘Seven Principles of Public Life’.37

Elements of good corporate governance should:

- demonstrate that required managerial disciplines are in place;
- assist with planning and decision making for management;
- complement any review and evaluation of program management;
- identify best private (and public) sector practices;
- establish credibility with external parties; and
- provide a defence against internal/external criticism.

Concern has also been expressed that there has been more emphasis on the form rather than the substance of good corporate governance. 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 done with Government Business Enterprises (GBEs), particularly Telstra, and with the Australian Tax Office (ATO) over the last few years 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);
- promotion of high ethical standards; and
- clarity of various management roles and accountabilities.

The result is a much more aware and focussed organisation.

**Risk Management as an Element of Corporate Governance**

It is widely accepted both in the private and public sectors that good corporate governance is an effective means of delivering sound risk management. Public Service managers are increasingly coming to terms with risk management as an important and integral element of their increased focus on outcomes as required by Government reforms.

A well governed agency will achieve better performance: it will have the robustness, the internal cohesion and direction essential to successfully drive the organisation forward and to respond quickly and coherently to external conditions. This must add
to both the credibility and confidence all interested parties have in our public institutions.

**Control Structures**

The second specific context I want to examine is control structures.

An agency’s executive can develop good corporate governance practices to maximise both the performance and conformance of the organisation. I have stressed the advantages of using a corporate governance strategy to improve agency performance. Very clearly, agency governance can greatly enhance accountability for such performance through establishing effective systems of control.

In a recent ANAO publication entitled 'Control Structures in the Commonwealth Public Sector - Controlling Performance and Outcomes: A Better Practice Guide to Effective Control' we indicated that a framework for effective control can only be achieved if, within its capacity to do so, an agency is able to:

- control its environment;
- control its risk;
- control its activities;
- control its information and communication; and
- monitor and review its control arrangements.

The Guide defines control 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 purpose of the Guide is to assist public sector managers assess the appropriateness and effectiveness of their organisation’s control structures. Thus it should be a useful tool for encouraging the review, design and implementation of a control structure which fits the nature, assessed risks and required performance outcomes of the agency or entity particularly as management come to grips with the new financial management legislation.

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 control environment of the 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 commitment and attitude to
ensuring well controlled business operations that can demonstrate accountability for performance.

You may be interested to know that the Australian Auditing Standards (AUS 402.15) indicate that it is management’s responsibility to maintain an adequate internal control structure. The particular standard goes on to state that an effective internal control structure assists management:

‘in ensuring that, as far as practicable, the conduct of business is orderly and efficient, including:

(a) irregularities being prevented, or detected and corrected should they occur;

(b) assets being safeguarded from unauthorised use or disposition; and

(c) financial records and other relevant data bases completely and accurately reflecting the entire operational activities of the entity and permitting the timely preparation of financial information.’

The Institute of Internal Auditors - Australia has recently published an Exposure Draft which addresses control criteria. They consider an effective system of control is important for the following reasons:

• to give assurance that the organisation is achieving its goals and objectives, within an acceptable degree of risk;
• to meet governance requirements;
• to avoid legal liability; and
• to assist in adopting a risk based governance style.40

I cannot over-stress the importance of the need to directly integrate the agency’s approach to control with its overall risk management plan in order to determine and prioritise the agency functions and activities that need to be controlled. Both require similar disciplines and emphasis on a systematic approach involving identification, analysis, assessment and monitoring. 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 achievement of the right balance is important 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.

The issue is how these important elements of a corporate governance framework can be brought to bear on the more contestable environment we are creating as part of government reform policy.
Operating in a More Contestable Environment

Although it is recognised that the Australian Public Service (APS) has been steadily evolving towards a more private sector orientation over the last decade or so, there has been much discussion over the various elements of change associated with this process and their impact on accountability. In particular, the increased emphasis on a more contestable environment brings questions of the costs and benefits associated with these changes. In a recent paper dealing with accountability issues, Richard Mulgan from the Australian National University commented that:

‘Contracting out inevitably involves some reduction in accountability through the removal of direct departmental and Ministerial control over the day-to-day actions of contractors and their staff. Indeed, the removal of such control is essential to the rationale for contracting out because the main increases in efficiency come from the greater freedom allowed to contracting providers. Accountability is also likely to be reduced through the reduced availability of citizen redress under such instruments as the Ombudsman and FOI. At the same time, accountability may on occasion be increased through improved departmental and Ministerial control following from greater clarification of objectives and specification of standards. Providers may also become more responsive to public needs through the forces of market competition. Potential losses (and gains) in accountability need to be balanced against potential efficiency gains in each case.’41

Professor Mulgan is rightly drawing attention to the ‘inevitable’ trade-off between accountability and efficiency. He conjectures that a reduction in the accountability requirements of private sector providers in an out-sourced environment may be one of the reasons for their greater efficiency. The issue is essentially about trade-offs. It involves similar considerations to questions about treatment of citizens as clients in a more market-oriented climate. To an extent, the debate is about the degree of risk involved particularly in determining the nature and level of accountability to be demanded. Decisions in this respect have to be taken at both the political and agency management levels. They raise, among other things, questions about control and responsiveness. In short,

‘... contracting out replaces the accountability rights of citizenship with the expectations of consumer responsiveness found in competitive markets.’42

The issues of risk management and accountability in a more contestable environment obviously provide particular challenges for the APS. I will now discuss some of these challenges.

The report by the National Commission of Audit43 has had a significant influence on the move to greater privatisation and outsourcing of government services and activities. It has also meant that even traditional ‘core’ government services, have become more contestable or have had to be more directly competitive with private sector providers. Undoubtedly, one of the most significant developments in APS
reform has been the requirement to test the market with a view to determining the
most efficient and effective method of service delivery. However, in the words of one
practitioner;

*Allowing a Yellow Pages approach to become the dominant philosophy
will almost certainly result in silly outcomes.*

Concerns have been expressed by various Parliamentary Members and Committees
and the Ombudsman about the implications of apparent contracting-out of
accountability. The Ombudsman has rather colourfully referred to the situation as a
'black hole' or 'twilight zone'. The Ombudsman's 1996-97 Annual Report
highlighted a range of complaint issues created by contracting out, including;

- muddy and often contradictory rules associated with contracting out;
- problems for citizens seeking redress for poor service or other damage created
  by contracted service providers;
- buckpassing of responsibility for problems between a government agency,
  contractor, and/or insurer;
- confusion between the agency's duty of care to the client, and its commercial
  priorities; and
- arguments about 'commercial in confidence' considerations being unnecessarily
  and indiscriminately pitted against an individual's 'right to know'.

The basic question continues to be 'who is accountable for what'? By whatever means,
there seems to be general agreement that the agency concerned is primarily
accountable. But in practical terms, the answer is not quite as simple as that.
Accountability inevitably involves some costs and/or sacrifice of efficiency.
Outsourcing accentuates the trade-off.

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.

Experience has shown that the decision to undertake contracting needs to be fully
informed at the outset if it is to succeed. In deciding whether or not to outsource a
function or operation, management first needs to:

- identify in detail the nature, quality, quantity and timing of outputs required (by
  this I mean services or end products);
- determine the ideal skills mix and resources required to produce the desired
  outputs;
- assess if current staff can provide, or how easily it would be to employ staff to
  provide, this service;
• fully cost out providing the outputs (as identified) in-house, and
• identify the potential risks or costs to the agency of contracting out and what strategies, if any, the agency has to put in place to manage these effectively.

Only after going through these basic steps can managers make an informed decision on whether or not to test the market to see what it has to offer and ensure that any outsourcing decision is in the interests of the organisation. The Senate Finance and Public Administration Committee observed that:

'A recurring theme of the literature on outsourcing is that it is not a panacea nor a convenient 'quick fix' for a failing in-house system and that the benefits may be realised in areas other than cost savings.'

Indeed there may not be any cost savings or only those associated with business process re-engineering or 'right-sizing' initiatives rather than with the outsourcing itself. On the other hand, it may provide options to management to improve performance that are simply not available in-house.

Privacy is also an issue in the CTC environment. The Privacy Commissioner has noted that agencies will be held accountable for the way that any personal information is handled by contractors. In some cases, privacy considerations may be so significant that they lead an agency to decide against outsourcing. This has particular relevance for outsourcing information technology based systems incorporating personal data.

These risks underscore the importance of accountability in the implementation of CTC within the public sector. The main message is that savings and other benefits do not flow automatically from the introduction of CTC. The key is good management. New opportunities as well as new risks are introduced. While competition is the key ‘driver’ for administrative savings, the nature of the public sector environment requires strong accountability elements if overall performance is to be enhanced. And that should be our objective.

Clearly, the emerging CTC environment requires the public sector to develop different management approaches from those that have traditionally been put in place and which have been refined over many years. It also raises important questions as to the appropriate mix of skills and training relevant to the more contestable public service. However, it is also important to realise that CTC does not equate to contracting out the responsibility for the administration of the service or program. It is the responsibility of the agency to ensure that the service delivery is both cost-effective and acceptable to the service recipients and key stakeholder groups. This means that the agency must specify the level of service delivery and quantitative and qualitative service standards in the contract. It must also ensure that an adequate level of monitoring of the service delivery is undertaken as part of the agency’s contract administration responsibilities. The inclusion of access provisions within the contract for performance and financial auditing is also very important in maintaining the thread of accountability. This is a case of managerial prudence, not of unduly restrictive bureaucratic processes.
The Commonwealth Ombudsman’s submission to the Senate Standing Committee on Finance and Public Administration inquiry into contracting out of government services made it clear that, where contracts cannot be adequately enforced, contracting out should not be used. 49 Such concerns indicate the need for robust risk management and reliable monitoring and review processes.

It is important to understand that the introduction of new ways of delivering public services, such as through CTC, does not obviate or limit the need for accountability by public service agencies simply because of the assumed market discipline induced by competition. To the contrary, less direct relationships and greater management decision-making flexibility strengthen that need for accountability.

A recent Federal Court decision has had significant implications for the approach taken by agencies when implementing CTC. In the case of Hughes Aircraft Systems International vs Air Services Australia (June 1997) probity in the tendering process was particularly important. The key message from the presiding Justice Finn is that all public bodies issuing a Request for Tenders (RFT) may be bound to comply with the terms of the RFT including matters going to the methodology, timetable, evaluation framework and evaluation criteria. Australian case law now incorporates a precedent that a ‘term should be implied as a matter of law in a tender process contract with a public body that it will deal fairly with a tenderer in the performance of the tender’. In this particular case, the Commonwealth body had breached that contract as it ‘failed to evaluate the tenders in accordance with the processes set out in the RFT, failed to ensure that confidentiality measures were maintained and accepted an out of time change to the proposal by one tenderer.50

In recognition of the importance of the issue of risk management in contracting out and competitive tendering, central guidance has been provided to agencies on better practice in risk management. Late last year the then Department of Finance published a useful outline of concepts, case studies and lessons learned in relation to contestability with implications for managing risks in a contracting and outsourcing environment.51 MAB/MIAC has recently released a report on contract management entitled ‘Before you sign the dotted line...’ which endeavours to provide key principles and practices for managers implementing CTC52. The now Department of Finance and Administration (DoFA) subsequently established a CTC unit to ensure that advice on CTC is coordinated and cohesive. The unit has a range of responsibilities including:

- coordinating the provision of CTC policy advice;
- providing agencies with a brokerage service to locate skills, tools and practitioners to implement CTC effectively; and
- facilitating access to high quality information on CTC.53

I observe that Gary Richardson who is to present the case study this afternoon is from the CTC group in DoFA.

Risk management is clearly not a discretionary activity. It is an integral part of good management, especially where we have limited resources and competing priorities.
Against the background of the increasing use of a range of different service delivery arrangements, risk management can only become more critical. As I indicated earlier, risk management has to be considered in the context of the changing culture and environment of the public service if we are to be credible both internally and externally. Within this context, the increasing separation between purchasers and providers of services and between policy and program delivery has particular relevance. However, in the same context, the Ombudsman has warned about a ‘no-man’s land’ of accountability, as I also indicated earlier, and the unpublicised transfer of risk. In response to a range of complaints being received the Ombudsman has also observed that:

‘Where contractors provide core government services indirectly it is critical that the thread of accountability goes back to the principal agency. Agencies should not contract out responsibility at their clients’ expense.’

Consequently, a particular behaviour or service that a contractor might consider acceptable when judged by ‘normal’ business standards may fall well short of the standards expected of the APS. The then Commonwealth Ombudsman indicated that she would not look kindly on ‘sharp business practice’ in the transference of risk to third parties. Again, I suggest it is a matter of striving for a sensible balance that is cost effective and sensitive to such concerns. Unfortunately, there is no ready reckoner in this respect. Along with available guidance, there is probably no substitute for ‘hands-on’ experience particularly as part of a more client-focused approach.

A systematic approach to risk management also has special significance with the introduction of new ways of undertaking public sector activities and delivering services such as through private sector provision. Particular risks that need to be acknowledged are:

- in a contestable environment CEOs and Ministers have greater responsibilities than private sector CEOs, for example in relation to national security, parliamentary accountability and government policy objectives which have to be taken into account in the public sector environment, not just a question of profit and shareholder value. CEOs and Ministers also need to ensure that core and non-core business are appropriately defined so that the appropriate strategies and accountability mechanisms can be applied productively not counter-productively (or, put another way, to facilitate not inhibit effective management);
- differences in the client base, often including a lack of, or minimal, choice particularly where their personal circumstances do not permit it;
- exposure to risk must be dealt with in the relevant agreements developed under purchaser/provider arrangements; and
- under any arrangement there is a need for appropriate performance clauses in contracts to minimise risks of not achieving outcomes with the requirement for the performance information to be auditable.
The ANAO has conducted a series of performance audits that examined the implementation of the purchaser/provider model in various Commonwealth agencies. While there have been many positive and well managed CTC initiatives within the Commonwealth, some of the common problem areas across agencies have included:

- vague or ambiguous objectives that make ex-ante evaluation difficult;
- high transaction and compliance costs;
- roles and responsibilities not sufficiently defined for parties to the contract;
- performance information inadequate to determine whether outcomes are being achieved;
- progress payments often made in advance of need and not linked to program/project milestones; and
- insufficient rigour in the assessment and management of financial risks for the Commonwealth.

Taken as a whole, these findings tend to suggest that the Commonwealth agencies need to focus much more strongly on building contract management skills and expertise if CTC is to be conducted successfully in the APS of the future.

### IV. The ANAO Contribution to Promoting Risk Management and Accountability for Performance

Having outlined major aspects of the risk management and changing accountability framework, I would now like to address briefly the role of the ANAO in assisting with the process of adjustment to the emerging public service environment with its emphasis on risk management, performance and accountability. The ANAO’s effectiveness is directly related to the extent to which we understand the environment in which we work. The ANAO does not stand outside the APS as some kind of interested on-looker or commentator. We are an integral part of the Service and of the changes and reforms which are occurring. We understand that we must not only take account of the changes to public sector operations in the conduct of our own work but we must also, as the agency with a key role in public assurance and in bringing about improvements to administration, work hard at promoting and facilitating required and desirable change.

Any influence the ANAO has on public administration, particularly on performance and accountability, will be largely through its individual products and services. The value of these individual products and services, in turn are influenced by the directions we take in our strategic planning.

At the broadest level, we aim via our strategic planning to operate in a way to be valued by the Parliament, the community and Commonwealth entities as a major contributor to achieving excellence in public sector administration and accountability. As such we seek to keep abreast with the changing nature of the public sector and the community expectations of it.
More specifically, our strategic planning (especially for the performance audit work) is guided by themes, which we use as reference points in our planning to keep our orientation relevant. Our current strategic planning themes are:

- contestable service provision (including competitive tendering and contracting);
- management of core programs;
- governance issues;
- information technology; and
- significant new government programs and administrative changes.

As you will agree, these themes allow us, indeed encourage us, in audits to traverse the terrain we have covered this morning (and more).

In addition to our business planning processes, our business practices in the ANAO also support the changing nature of the public sector and respond to the pressures for improved performance and accountability. The ANAO has a new and expanded legislative mandate for its audit activities. Nevertheless we continue to behave as if we were in a contestable environment. We fully cost all our audit products and make these transparent as part of our accountability.

One area in which we can learn from the private sector is in being aware of the prime necessity to provide a quality service to clients (or our various stakeholders). The ANAO’s primary client is the Parliament. We have a strong focus on providing quality services and products to the institution itself, its committees and to individual Members. As well, other stakeholders, including auditees, are also treated as clients. The culture of further developing a client service orientation is something that we in the ANAO are working on steadily. As part of this more client focussed approach, we have come to the view that the ANAO must supply a broad range of audit and audit-related products to be considered really useful to the various entities and stakeholders with which we are involved.

The ANAO has recognised that the Office needs to design our products to better suit the CTC environment. Clearly, CTC has important implications for the way in which we conduct our audit business and as to how we might influence the on-going reform movement. The inter-related nature of the ANAO’s product range is recognised as a central element of our overall business strategy. This is explained in our strategic directions document. In particular, we ‘leverage’ our audit work to produce a series of Better Practice Guides on topics of importance to the changing accountability framework. The Better Practice Guide to Effective Control, ‘Control Structures in the Commonwealth Public Sector’, released in 1997 is a notable example. Other Better Practice Guides on topics of importance to the changing accountability framework include ‘Illustrative Financial Statements for the Year Ended 30 June 1997 AMODEL Department’, ‘Performance Information Principles’, and ‘Administration of Grants’.

Risk Management Issues in Audits
During the 1994-95 cycle of financial statement audits an assessment was made in 113 entities of financial risk management processes in place. Overall, the review found that considerable progress had been made in the adoption of risk management philosophies and approaches, with the majority of entities having sound financial risk management processes in place (50 per cent of those reviewed) or were in the process of developing them (48 per cent). Entities were, however, encouraged to broaden their assessments and strategies consistent with the then MAB/MIAC Exposure Draft on Managing Risk in the Australian Public Service. You may be aware that we categorise and report control weaknesses according to the ‘business’ risk they pose to agency management.

During the 1995-96 round of financial statement audits, progress made in the development of risk management procedures was followed up and included in my report to the Parliament on the Results of the 1995-96 Financial Statements Audits tabled in December 1996. It is our intention, in these types of reviews, to indicate to entity managers how they compare to the better practice of their peers and identify areas where improvements might be made. The Report summarises the progress made for seven major departments and agencies in introducing formal risk management regimes. It indicates that agencies are continuing to develop risk management processes with some, as I mentioned earlier, being more advanced than others.

Our audits of the financial statements of Commonwealth entities for 1996-97 also examined risk management primarily because of its relevance to the control framework. If it is judged that the control framework (or key aspects of it) is operating effectively, the ANAO may place reliance on the control activities undertaken when forming the opinion on the financial statements. Clearly, a control which prevents an error, fraud or other kind of loss has to be considered superior to exposure by an ex post audit. I note that risk management was one of the internal control matters we commented on in relation to the financial statements audit of the Australian Customs Service (ACS). I might add that, while we mentioned some specific matters requiring ACS attention, we noted the sound progress and achievements of that agency regarding its risk management framework which I will refer to later in relation to identified better practice.

The ANAO’s report on the Department of Defence’s Jindalee Operational Radar Network Project, (JORN) questioned whether the project team had considered all risks to the Commonwealth through their project management. Despite risk analyses, the risk management approach did not identify, treat or minimise risk effectively. The JORN project is an example of the Commonwealth acting both as a purchaser and provider of a product, with a consortium involving Telstra and the private sector as the provider. The audit highlighted how difficult it can be to make such a purchaser-provider model work well with complex project management, contractual difficulties, ensuring useful and timely performance information is provided for ongoing assessment of progress as well as the need for tactical decision-making. The Joint Committee of Public Accounts and Audit has conducted an inquiry into this matter, and I understand that the Committee expects to present its report on this in the fairly near future.
Our report on *Medifraud and Inappropriate Practice*[^63] found that the Health Insurance Commission (HIC) had adopted a sound risk management approach to leakage through fraud and inappropriate practice from the Medicare and Pharmaceutical Benefits Scheme. In particular the HIC had identified significant risks as well as analysing and ranking them. All fraud control plans had been developed from fraud risk assessments and reflected the risks identified.

In addition to incorporating risk management into the wider audit approach taken for our audits, over the last couple of years the ANAO has completed three performance audits in the ATO and the ACS which specifically examined the risk management process employed by those agencies. The three audits were designed to be complementary and to develop a picture about the adoption, implementation and application of risk management processes as outlined in the MAB/MIAC Guidelines. I will briefly discuss the main points of each report in relation to risk management.

The ATO Risk Management performance audit[^64] had several key findings and made a number of recommendations on how the ATO could improve its risk management process. One of the major issues was the increased need for a management information system which can support the risk management process. The report also highlighted the need to monitor and review progress against achievement of risk management objectives and strategies and the need for adequate documentation to ensure a transparent risk management process.

The subsequent audit of risk management in the ATO reviewed the operational application of risk management in the Small Business Income line in the ATO[^65]. This audit also indicated the need for the continued refinement of risk management processes for the identification, analysis, assessment and prioritisation of individual risks. The report also identified the need for ATO to have information on the costs and benefits of treatment regimes for performance monitoring and to assist with the development of future risk management strategies.

The audit of the Australian Customs Service focussed on Risk Management in Commercial Compliance[^66]. The ACS audit highlighted the increased need for information and the requirement for adequate documentation to ensure transparent risk management processes. The report also considered that risk management would benefit from a more comprehensive risk analysis, assessment and prioritisation process which utilises both qualitative and quantitative analytical techniques.

The ACS report underlined the importance of having a plan and strategy for introducing risk management and the establishment of timeframes and milestones against which to measure progress. The ANAO considered that clearly establishing a date when senior management will be able to rely on the information generated through the process for strategic decisions in business planning and resourcing would emphasise the importance of risk management and promote the adoption of thorough risk management practices in the agency.

The ANAO also identified some better practice undertaken by ACS in its implementation and use of risk management in the Commercial Compliance Branch. Most significantly, the appointment of a champion to lead and be responsible for the

[^63]: Refers to the source or further reading for the Medifraud and Inappropriate Practice report.
[^64]: Refers to the ATO Risk Management performance audit.
[^65]: Refers to the ATO Risk Management audit in the Small Business Income line.
[^66]: Refers to the ACS audit on Risk Management in Commercial Compliance.
introduction of risk management and establishing a co-ordination unit for implementation has helped to continue the momentum for adopting risk management. Maintaining momentum for introducing and using risk management is important to ensure that it remains a central feature of the agency and doesn’t fall to the side lines. We encourage all agencies implementing risk management to appoint a senior executive to oversee and maintain the program for introduction of risk management.

The ANAO audit relating to the South Pacific Cruise Lines contract reviewed the activities by the Department of Employment Education Training and Youth Affairs (DEETYA) leading to the letting of a training program contract and its subsequent administration. In examining the issues from this case which are relevant to the broader APS, the ANAO concluded that although an increasing emphasis on outcomes has been a key factor in enhancing the efficiency and effectiveness of the public sector, sound administrative processes and effective management are also critical to sustaining long-term performance. In this context, agencies should ensure that internal guidelines for program administrators keep pace with, and incorporate, recent APS guidance material on matters such as managing risk and procurement.

The ANAO found that DEETYA did not adequately apply accepted risk management practices to the proposal nor develop a contract that clearly specified what was to be delivered and the outcomes to be achieved. As a result of this lack of attention to risk assessment, a significant advance payment was made prior to the delivery of the required outputs and outcomes. Unfortunately, this is not an uncommon occurrence in the public sector.

Another example of an ANAO audit contributing importantly to risk management in the APS is the one which considered agencies’ risk assessment and management of the Year 2000 problem. I want to spend some time outlining this audit and the relevance of its issues. It contains many valuable lessons for APS managers striving to manage risk well and improve performance.

Over the next two years, many computerised business systems or other equipment and machinery using micro-processors may malfunction because of an inability to represent the year 2000 as a two digit year date unless they are repaired or replaced. This has been variously referred to as the 'Year 2000 problem' or the 'millennium bug'.

Computerised information systems which have not been modified will react in a variety of ways to the Year 2000 problem. Some may not be able to cope and will simply fail to operate. Others may continue to run, but will produce meaningless or erroneous data.

Among the risks to key government functions associated with the Year 2000 problem are:

- government revenue not being received or being processed incorrectly;
- program expenditure not being made or made correctly (including payments to beneficiaries);
• disruption of business processes with consequent costs arising from, for example, lost productivity, reduced efficiency and loss of stakeholder confidence;
• legal risks arising from liability for adverse effects upon other parties such as contractors or clients/customers;
• the risk that government entities may be unable to fulfil statutory obligations; or
• risks to personal security or safety.

It became apparent in the audit was that the Year 2000 problem is basically a management/business problem that needs to be addressed in a corporate manner and communicated to all staff as a shared concern. Agencies need to demonstrate executive awareness and sponsorship; they need to take complete stock of their business and operating environments; they need to have commenced a full inventory and audit of their systems; they need to have assessed their risks; and they need to put into place a sound program and project management structure to see their activities through to completion.

It will be apparent to you that this process describes nothing more and nothing less than the core corporate governance principles and the key steps underpinning risk management. This is not ‘rocket science’. It is good management. Put concisely, the Year 2000 problem is an issue that demands an effective risk management approach as part of good governance.

Overall, the ANAO found that the majority of agencies surveyed in the audit were not following a systematic and structured approach to the identification, ranking and treatment of Year 2000 risks.

The ANAO found with respect to risk management, that although most agencies surveyed had undertaken some identification and analysis of Year 2000 risks, few agencies had done so as part of an overarching corporate risk management plan. (Only 36 per cent of agencies responding to the survey reported having a corporate risk management plan. )

Risk analysis was incomplete or deficient in many agencies with limited ranking (or prioritisation) of risks. Few agencies had undertaken comprehensive testing of systems and applications and few had contingency, business resumption or disaster recovery plans in place.

For the most part, agencies were not been able to show that appropriate management and reporting structures had been put into place to support a whole-of-business approach to the problem and assure effective corporate governance of Year 2000 risks. For example, few agencies had estimated the full cost of achieving Year 2000 compliance, thereby being unable to offer adequate assurance to management about agencies' Year 2000 exposures.

Despite these disappointing observations about agencies' risk management so far, the audit concluded that the Year 2000 problems can be resolved satisfactorily provided
they are accepted as issues to be addressed by the whole organisation as a matter of urgency. As well, it could be possible that such a focus will provide agencies with options to turn a survival imperative into business opportunities by coupling Year 2000 compliance activity with business process re-design to achieve better outcomes with more efficient and effective management processes.

V. CONCLUDING REMARKS

The current direction of the APS is to become much more outward-looking and responsive to client needs while continuing to maintain and improve the transparency and accountability in its decision-making and service delivery. This has been supported legislatively through the Workplace Relations Act (1996), the Auditor-General, FMA and CAC Acts (1997), and, in the future, with the introduction of the Charter of Budget Honesty recently passed in Parliament and Public Service Bill (1997). Culturally, this has required a shift in the APS approach to a more private sector orientation in its attitudes to service delivery, in part assisted by the introduction of client service charters, involving: a greater focus on service delivery mechanisms such as purchaser/provider arrangements; more emphasis on contestability and contracting out; and development of formal corporate governance structures, including the development of risk management approaches as an integral element of those structures.

Risk management is one element which fits into the larger APS reform agenda but should not be seen as an end in itself. Risk management aims to promote a strategic, transparent, flexible and systematic (documented) approach by agencies to decision-making. Such an approach should promote accountability and improved performance information as well as assisting audit review and agency evaluation.

Risk and control assessments are central to the strategic management process which is an important part of Corporate Governance and therefore of accountability for performance. Risk management attempts to treat risks to bring them to a level which is acceptable by the agency and aims to promote a strategic, transparent, flexible and documented approach by agencies to decision-making. Each stage of the risk management process is integral to the effective management of risk including the establishment of effective controls to create a robust control environment. Continuous monitoring and review reinforces the need for constant vigilance to identify changes in currently identified, and the emergence of new, risks.

No one part of the risk management processes is more important than another. They are all integral to the effective management of risk. Successive phases reinforce each other with the monitoring and reviewing process continuously feeding into each phase. The key to risk management is timely and adequate information which also impacts on the control policies and procedures. There will be increasing demands by managers at all levels for current information about all aspects of the agency’s environment and operations. The challenge for all of us is how should those information demands be best met, that is, to have the right information, in the right place, in the right time and at the right price.
Risk management must be pursued systematically within a public service culture that reflects the imperatives of the political environment including public service values, ethical conduct, probity, fair dealing and accountability for performance in an open, that is transparent, manner. Such vital factors need to be recognised as the APS moves to a more private sector orientation, involving the actual provision of services, including policy advice, by that sector. This is a significant management challenge. It is about managing another dimension of risk with which many of us have had only limited experience. Contract management skills and experience are at a premium.

I would like to emphasise that, while the public sector is becoming more private sector oriented through the greater use of competitive tendering and contracting, it is important to realise that there will always remain clear distinctions between the two sectors. The public sector operates within a ‘political environment’ and is accountable simultaneously to the Executive (ie Ministers) the legislature (ie the Parliament) and the judiciary (ie the Courts). That is, there are a number of accountabilities and ‘balances’ that have to be struck as part of the ‘bottom line’ of performance.

In the public sector we have particular concerns for national security, individual privacy, fairness, honesty and equity as public obligations. As I also noted earlier, regardless of who delivers the services, a number of public sector clients have not choice but to rely on those services because of their personal circumstances. Many of those services do not reflect the fairly straightforward characteristics of a commodity or product. Treating them as such, risks much less effective outcomes even if it is considered they can be delivered more efficiently by that means.

These are the realities in delivering public sector services which are central to considerations of any politically credible accountability framework. Different considerations may apply to the so-called ‘core’ and ‘non-core’ elements of the public sector, particularly where the latter is in the form of government business enterprises having characteristics more related to private sector corporations. Public interest considerations loom large in the core public sector and require different information and judgements to those needed in the more market-oriented non core areas.

The private sector can move rapidly into new markets without the enduring accountability for the functions currently being performed. The public sector cannot. Differences between the two sectors are also evident in the areas of values and ethics. The problem is one of attitude or culture not simply the difficulty of adequately expressing such requirements in a contractual form. Risk management has to encompass such complexities and the sometimes inherent contradictions. That is the nature of the political processes and environment in which we work.

The private sector operates primarily within a much narrower accountability framework that is built around ‘the market’ and the interests of shareholders. It is important not to confuse this point when considering the changing nature of the public sector and the involvement of private firms in the delivery of public services. Devolution, managing for results and the wider adoption of CTC are drawn from best practice within the private sector but can complicate the thread of accountability as new relationships and new players are introduced.
It is important to recognise that CTC does not automatically equate to administrative savings and other benefits. New opportunities as well as new risks are introduced. The opportunities need to be explored by innovative managers. The risks must be managed appropriately, always bearing in mind that whatever the method of service delivery, government agencies remain accountable for the efficient performance of the functions delegated through the agency’s administrative orders.

The following observation is very apt in the more contestable environment being developed in the public sector and with the greater involvement of the private sector:

‘Experimentation and innovation need to be encouraged and supported. It is important to accept that there can be no experimentation without risk. Ministers and senior officials must accept some of the uncertainty implicit in giving up a degree of control. Not every experiment will be a success. Some honest mistakes will be made. This needs to be understood and accepted. Our commitment should be to learn from these situations.’

I was asked to address the question ‘why risk management?’ Risk management has a very positive rationale. Somewhat similar to the optimistic perspective on the Year 2000 problem I mentioned earlier, risk management provides agencies with options to turn a survival imperative into business opportunities. Redesigning operations can achieve better outcomes with more efficient and effective management processes. It has been demonstrated that, for all the difficulties associated with its practical application, effective risk management offers one of our best strategies for being able to deliver improved outputs and outcomes in an era of greater public sector accountability for performance. That is the basis on which we will be judged and is the central answer to the question on ‘why risk management’.
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6 Reith, The Hon Peter MP, 1996 Minister for Industrial Relations and Minister Assisting the Prime Minister for the Public Service. ‘Towards a Best Practice Australian Public Service - A Discussion Paper’. AGPS.


8 PSMPC 1997 Innovations Issue No. 5. August.

9 Public Service Commissioner, 1997 Annual Report for 1996-97, AGPS, Canberra, October (page 6)


12 Management Advisory Board/Management Improvement Advisory Committee (MAB/MIAC) 1996 Report No 22 ‘Guidelines for Managing Risk in the Australian Public Service’, AGPS Canberra, October


16 The three Acts are:
(a) The Auditor-General Act which provides for the appointment, independence, status, powers and responsibilities of the Auditor-General; the establishment of the ANAO, and for the audit of the ANAO by the Independent Auditor.
(b) Financial Management and Accountability Act (FMA) which sets down the financial regulatory/accountability/accounting (accrual based) framework for Commonwealth bodies that have no separate legal existence of their own (ie they are simply agents of the Commonwealth)
(c) Commonwealth Authorities and Companies Act (CAC) which provides standardised accountability, ethical and reporting provisions for Commonwealth bodies that have a separate legal existence of their own (eg Commonwealth controlled companies and their subsidiaries and those statutory authorities whose enabling legislation gives them legal power to own money and assets).

17 Whole of Government Financial reporting will be a mandatory requirement for all governments (Commonwealth and State) in the near future following the introduction of the new accounting standard AAS31 on financial reporting by governments. The Charter is concerned with the enhancement of fiscal reporting and the requirement for the Government to observe certain principles of sound fiscal management.

18 The Charter is concerned with the enhancement of fiscal reporting and the requirement for the Government to observe certain principles of sound fiscal management.

19 A booklet ‘Putting Service First - Principles for Developing a Service Charter’ was launched by the Minister for Small Business and Consumer Affairs in March 1997. The Minister indicated that Service Charters will be a powerful tool for management, staff and customers to continuously improve services. The result should be a more accountable and responsive public service.

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