A more systematic approach to effective decision-making for better outcomes or results

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A MORE SYSTEMATIC APPROACH TO EFFECTIVE DECISION-MAKING FOR BETTER OUTCOMES OR RESULTS

Thanks are due to Penny Davidson and Jon Hansen of my Office for their valuable assistance in preparing this address.

I would also like to thank those agency heads who commented on my occasional paper ‘A Systematic Approach to Effective Decision-Making’ dated 20 November 1998. That paper formed the basis for today’s address.
I. INTRODUCTION

I am pleased to have been asked to speak to you today about a more systematic approach to agency decision-making in the Australian Public Service (APS) and its influence particularly on its performance and accountability for the quality of client service provided by the APS to Australian citizens. I stress that I am focusing on how decision-making might often benefit from a more systematic approach and not on the broader topic of how to make good decisions. I am grateful to the newly appointed Chief Executive Officer of Australian Government Solicitor, Rayne de Gruchy, for referring me to a relatively recent Harvard Business Review article on decision-making Hammond John S, Keeney Ralph L and Raiffa Howard, 1998. ‘The Hidden Traps in Decision-Making’, Harvard Business Review, September-October (pages 47-58). and to the extensive range of literature reflecting the need for a multi-disciplined approach to decision-making. In particular, I am very aware of the human element in effective decision-making.

Particularly during these last twelve months or so, many performance audits have recommended a more systematic approach to decision-making in agencies, notably where they have been subject to considerable changes in their structures, systems and the ways in which they undertake their functions and/or deliver their services. This is a reflection of the need to manage effectively a more risky environment, perhaps where the requisite skills and experience need to be improved, such as in contract management. As well, managers have been encouraged to take a risk management approach to their responsibilities to improve performance, as part of the public service reforms, which now focus more on achieving program outcomes efficiently and effectively.

Having worked in a number of different agencies at a senior level, I am aware of the practical difficulties associated with applying effective decision-making strategies and processes to particular problems, including at different levels of the agency, and to fostering a successful decision-making environment. In particular, during my time as Auditor-General, I have been exposed to the decision-making processes and evolving corporate structures of a multitude of agencies both here, through the audit work carried out at my office and contact with my fellow State Auditors-General, and overseas, through regular contact with overseas counterparts.

The introduction of National Competition Policy reforms has resulted in a new era of contestability for the APS. In effect, we are witnessing a convergence between the public and private sectors. However, it is
doubtful that anyone could say with confidence at this stage where that might lead in terms of governance arrangements. Convergence offers the opportunity for greater partnership and shared concepts and language based increasingly on common approaches and objectives. On the other hand, convergence may also highlight more starkly many of the perceived distinctions between the two sectors. In my view, the latter are mainly about accountability and the public interest involving issues such as Parliamentary legislation (the rule of law and its administration), values and ethics, transparency, justice, privacy, fair play and equitable treatment of citizens. Even here we are witnessing a degree of convergence where private sector organisations wish to be seen as good corporate citizens and not just for ‘image’ or corporate marketing purposes. I will be largely referring to the commercial rather than the non-profit segments of the private sector in this address although much of the observations encompass both segments.

Sharpening the distinctions between the public and private sectors highlights the areas of comparative advantage and product differentiation, using economic and marketing terminology. In plainer language, we learn from each other and do what each does best. However, in the case of the public sector, this will be largely decided by the Government and/or Parliament. The onus will then be on the public sector to respond readily and positively. However, I am sure that it would be generally agreed that a pro-active and anticipative public service would be seeking to provide suitable advice on whether such decisions would be taken. It is important for a professional public service to contribute to the environment in which it operates. This is particularly important in a situation of devolved central authority where there are not the same ‘corporate’ information flows and support as in the past which could create gaps in strategic knowledge, management approaches and accountability if no consideration is given to dealing with any such consequences by other means. The situation demands pro-active, not reactive, management attention which cannot simply be assumed will occur.

This address focuses on the challenges faced by decision-makers in this environment and some strategies that can assist decision-makers in meeting these challenges.

The five main areas to be discussed are:

· the impact of decision-making on providing quality customer service;

· the impact of corporate governance structures on decision-making;
the impact of control structures and risk management practices on
decision-making;

the importance of having timely and management friendly access to
quality information; and

the importance of having access to the skills necessary to encourage
consistent and credible decisions.

II. QUALITY CLIENT OR CUSTOMER SERVICE

In recent years there has been an increased focus on the provision of
quality client or customer service in the APS. My personal preference is to
use the term ‘client’ when referring to the way Australian citizens are
treated in service delivery. ‘Client’ conveys more the notion of mutual
obligations and relationships and less about the action of purchasing, which
can, of course, include a decision not to buy. Pragmatically, there may be
choice of providers for citizens but not usually about entitlements.
Whereas the delivery of services in the private sector has always been of
paramount importance in relation to reputation, market share and future
work prospects, in the past some elements of the APS have been a little
slower in recognising the importance of delivering quality services to clients
even where there is no actual competition. That is not to say that elements
of the APS have not provided good service over many years, such as
Veterans’ Affairs.

A number of agencies are finding, now that they must embrace principles of
contestability and competitive neutrality, that they have to focus on the level
of quality client service to remain viable and perhaps even to survive in
their present form. However, the issue should be primarily about making
and taking opportunities to provide more cost effective services to clients,
not just about survival. As with the private sector, agencies are having to
determine, for example, the appropriate balance between service
standards and cost.

Quality client service is largely dependent on a close and strong alignment
between management and staff and the agency’s client-oriented objectives;
a positive and pro-active climate where staff are encouraged to improve
client services; an agency commitment to quality client services; and on
the systems, processes and controls an agency has in place to ensure
good decision-making. It should automatically follow that an agency with a
clear and strong client orientation and robust decision-making processes
should deliver quality client service, as such decisions are likely to be more
timely, consistent and appropriate to the purpose. Although this concept
sounds simple enough, it is often difficult for APS agencies to put into practice because of the complex and often disparate requirements of clients (who are also citizens) and other stakeholders such as the Government and the relevant Ministers. It is particularly important to ensure that agencies have a very good understanding and appreciation of such requirements as a responsive and responsible public service.

Performance assessment of public sector organisations goes beyond simply measuring those inputs and outputs that can be quantified. Qualitative accountability in the areas of community service obligations, equity in service delivery and a high standard of ethics are also critical to any public sector agency. Certainly the demand for openness and transparency of all aspects (not only financial status) of public sector agency governance by stakeholders exceeds that required of private organisations.

For example, let us examine the former Department of Employment, Education, Training and Youth Affairs’ (DEETYA’s) implementation of the new employment services network. DEETYA delivers services to clients (the unemployed public) by contracting private firms and the public corporation Employment National to find jobs for the unemployed. While the unemployed public are DEETYA’s clients, other stakeholders such as the contracted agencies and the Parliament have an interest in the decisions DEETYA makes regarding its services. Difficulties arise when the objectives of relevant stakeholders differ. An important element of public accountability is that an agency’s (in this case DEETYA’s) control structure provides the decision-maker with a mechanism to determine the optimum solution through a process which can be logically followed by stakeholders as an important element of public accountability.

Several agencies have taken the initiative in trying to increase the level of stakeholder knowledge about the roles, responsibilities and processes of the organisation, through the use of client service charters. Client service charters are a basic document outlining the type and quality of services clients can expect from an agency. They not only increase the accountability of agencies, they can also promote higher quality customer service because the agency has committed to the delivery of the services outlined in the charter. Charters also promote consistency in decision-making by providing parameters within which the agency must operate, which leads to, among other things, more equitable treatment for clients. The importance of client charters and their contribution to quality outcomes for clients were recognised by the Government in its policy direction that all relevant public sector agencies were to have had client service charters in place by 30 June 1998.

The Australian Taxation Office issued a Child Support Agency (CSA) client charter in July 1996 which set out the rights, responsibilities and obligations
of both the Child Support Agency and its clients. At the time it was regarded as indicative of better practice. This was followed up by a Taxpayers' Charter (released in July 1997) which was widely publicised in the media. Both these documents explain to clients the quality of services they can expect. While the CSA has been transferred to the Family and Community Services Portfolio, the ATO has followed through on its intention to publish annually its performance against the service standards indicated in the Taxpayers’ Charter The Chief Executive of Comcare drew to my attention a reaction of many people on long term payments to their Service Charter which also set out the responsibilities of both parties. In short, those people felt 'very threatened' worrying about 'what they had to do'. Stanton Meryl 1999. Personal letter to the Auditor-General. 11 February. Such a reaction is indicative of the need to have a planning process in place to deal quickly and effectively with concerns or complaints as they arise.

At the ANAO, although our key client is the Parliament, we keep the agencies we audit informed about the work we plan to perform and what they can expect of us by producing annual audit strategy documents. These documents outline potential performance audit topics and the particular focus areas for financial statement and assurance audits for the coming year. As an additional service to our clients we also regularly produce guides which provide examples of better practice in public administration as well as seminars and workshops on these and other current audit related topics.

It is obvious that, with the divide between the current public sector and private sector narrowing, public sector managers must ensure that the services they provide to the public are cost-effective, efficient and of a high quality if they are to be contestable with private sector provision in any market testing situation based on competitive neutrality grounds.

III. DEVELOPING A SOUND CORPORATE GOVERNANCE FRAMEWORK

Public sector agencies must balance complex political, social and economic objectives, which subject them to a different set of external constraints and influences to those experienced in the private sector. The Chartered Institute of Public Finance and Accountability, 1995. Corporate Governance: A Framework for Public Service Bodies, July, (page 7). In this environment the establishment of an effective corporate governance framework is imperative if the organisation is to fulfil its performance and accountability responsibilities to its stakeholders such as the Parliament, the Executive and its clients.
As the regulations governing agencies have become less prescriptive, and some might argue less inhibiting, the importance of a well established and accepted corporate governance framework which includes sound decision-making processes has become more apparent in the public sector as indeed it has been for some time in the private sector.

Corporate governance is largely about organisational and management performance. The following key operating principles should underpin a sound corporate governance framework in the public sector:

· **Openness** is about providing stakeholders with confidence regarding the decision-making processes and actions of public sector agencies in the management of their activities. Being open, through meaningful consultation with stakeholders and communication of complete, accurate and transparent information leads to effective and timely action and lends itself to necessary scrutiny.

· **Integrity** is based on honesty, objectivity as well as high standards of propriety and probity in the stewardship of public funds and the management of an agency’s affairs. It is dependent on the effectiveness of the control framework and on the personal standards and professionalism of the individuals within the agency. Integrity is reflected in the agency’s decision-making procedures and in the quality of its performance reporting.

· **Accountability** is the process whereby public sector agencies and the individuals within them are responsible for their decisions and actions and submit themselves to appropriate external scrutiny. Accountability can only be achieved when all parties have a clear understanding of their responsibilities and roles are clearly defined through a robust organisational structure.

· **Leadership** involves clearly setting out the values and standards of the agency. It includes defining the culture of the organisation and the behaviour of everyone in it. I would like to stress here the importance of effective leadership in securing the confidence and trust of our people. Without their support and commitment, our credibility can be compromised and the probability of success is likely to be minimal. Ibid, (pages 9-10).

Not surprisingly, these principles mirror the APS values and related principles which have become, and will continue to be, increasingly important in differentiating public and private approaches to service delivery. I have been recently requested to provide comments on a paper which is intended to assist agencies to apply APS values in the current and likely future public sector environment.
The four principles discussed above should also be reflected in the organisational structures and processes, external reporting, internal controls and standards of behaviour of the organisation. Effective corporate governance structures can provide managers with confidence that the decisions they make will contribute to the achievement of their primary goal, that is successfully achieving their objectives and meeting the expectations of their clients, the Executive and the Parliament. The prevailing corporate culture and values can do much to minimise risk in an organisation. A complementary view has been put succinctly as follows:


Lessons can be learnt from the actions taken by the private sector in implementing effective corporate governance practices during recent years. Experiences with corporate financial problems in the 1980s encountered by both private companies and their audit firms reinforced the requirements for accountability and transparency of decision-making processes. Significant progress has since been made in the governance of Australian listed companies. Particular influences in this area have been shareholders demanding assurance of sound management practices and Australian Stock Exchange requirements that Australian listed companies outline corporate governance practices in annual reports and prospectuses. This approach has been well taken up by Government Business Enterprises such as Telstra and Australia Post. The investment community, particularly in the United States of America, links good corporate governance directly with better organisation performance.

I am not advocating that public sector agencies should simply copy private sector governance frameworks and attitudes, rather that they contemplate how private sector governance practices might be applied to support existing, or newly developing, frameworks in a much more contestable environment with that sector. While the legislative imperative is of particular importance to public sector organisations, the move to more principles-based people and financial management legislation provides much greater flexibility for public sector managers to implement structures that deal with today’s and tomorrow’s issues. While long standing legislation often does incorporate the ‘wisdom of the ages’, it can also embody yesterday’s solutions to yesterday’s problems. Greater management flexibility and commensurate increases in personal accountability are the hallmarks of the ongoing public sector reform movement.
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It is difficult to identify a particular generic governance template for all public sector agencies as they vary considerably in size, organisational complexity, client base and the type of work and functions performed. However, it should be recognised that commonalities exist between agencies in the internal structures which support decision-making. At least there should be agreement on the basic principles and their appropriate application, even on a minimal basis.

As a result of the recent recognition regarding the need for good corporate governance in the public sector, the ANAO (along with other public sector agencies) has been involved in developing guidance about public sector governance frameworks. Our intention is to develop and articulate frameworks that are of real benefit to management and which enhance an agency’s ability to withstand external scrutiny and enhance the confidence and trust of its stakeholders, including clients.

The ANAO has developed a discussion paper on corporate governance which is designed to assist CEOs of budget funded agencies with the establishment of an appropriate management framework for their agency. We anticipate this will lead to efficient and effective use of Commonwealth resources through improved decision-making. This discussion paper was developed in consultation with other public sector agencies and drew on the experience of private sector organisations. Australian National Audit Office, 1997. Applying Principles and Practice of Corporate Governance to Budget Funded Agencies.

The ANAO has also developed a similar discussion paper which outlines a methodology for developing robust corporate governance frameworks for bodies covered by the Commonwealth Authorities and Companies (CAC) Act 1997. In addition, it summarises broadly the legal responsibilities of CAC boards and compares them with those of the private sector and government departments. The paper is currently out with CAC bodies for comment and is expected to be available late next month.

IV. CONTROL STRUCTURES AND RISK MANAGEMENT

It is the control structures within a corporate governance framework that ultimately provide assurance to clients and the Parliament that an agency is operating in the public interest and has established clear lines of responsibility and accountability for its performance. This interrelationship is stressed by Steven Root in his useful book on internal control published late last year as follows:
In short, effective agency control structures provide the necessary elements of the corporate governance framework to help make informed decisions, and provide the transparency that agency managers and stakeholders require to assess the performance of an organisation in meeting its objectives. It is important to recognise that such control structures are a means of developing a more credible corporate governance framework and are not ends in themselves. To some critics, the emphasis on control structures reflects an undue pre-occupation with the processes rather than outcomes as required by the more recent public service reforms. However, most would agree that sound processes are a prerequisite for good outcomes. As usual, the issue is basically about achieving the right balance of effort to secure the results required.

The implementation of credible and reliable control structures, that take into account the environmental factors already discussed, provides the basis for successful decision-making processes and an effective accountability link between an organisation’s clients and those entrusted to manage resources and to deliver quality outcomes. A competitive environment also means that APS managers may be subject to a somewhat different type of accountability than has probably been experienced in the past which involves an increased focus on the consistency and the informed nature of decisions and the competitiveness and cost-effectiveness of the products and services delivered. While recognising the various types of accountability relationships that can apply, any trade-off of requirements for particular elements of accountability to secure more contestable outputs and/or outcomes would be a decision of the government and/or Parliament.

I noted earlier that we are witnessing a convergence between the public and private sector. As public sector agencies pursue a more market-oriented approach (including the contracting of more and more services) and authority continues to be devolved, the risk profile for the public sector is increased. We have seen a number of cases where there has been insufficient scrutiny and oversight of the actions of agencies and, as a matter of greater concern, insufficient scrutiny of the actions and performance of those agents contracted by agencies to provide services in some cases. In essence, there may well be a monitoring and review vacuum. The ANAO has attempted to address this issue to some extent by providing products which are specifically tailored to fill these gaps. For example, we have introduced Assurance Control and Assessment audits which focus on the design, implementation and operation of control activities. However, it also vitally important that agencies address this issue by determining their exposure to such risks and developing sound strategies to address them. For example, agencies should ensure that effective accountability mechanisms are included in contracts which may
vary with the nature of the services and the actual contractual relationship involved.

While it must be recognised that these frameworks will not eliminate mistakes, or other errors of judgement, quality information and sound risk management practices make it possible to reduce significantly the chances of incorrect or ineffective decisions being made. It follows that the agency is more likely to deliver quality outputs and outcomes to clients as a result. A simple summation of these principles is that systematic and effective control structures, which include sound decision-making processes, lead to higher quality outcomes for clients. Such structures do not reflect risk aversion but rather a need to be conscious of, and to actively manage, risks for better performance. In the words of Steven Root:

… being in control means reducing to reasonably tolerable levels the risks of adverse events occurring. Ibid. (page 40).

Such control must be enduring to deal with the constantly changing processes, events, circumstances and conditions facing the agency.

The control environment is a reflection of management's commitment and attitude to ensuring the agency can demonstrate accountability for outcomes. The notion of a control environment starts from the top of an agency and, to be effective, it requires clear leadership and commitment. This is reinforced by the interrelationship of risk management strategies with the various elements of the control culture. In terms of decision-making, the following three control areas are of direct consequence:

- **Activity control** - the policies and procedures established by an agency to ensure the efficient and effective day-to-day running of the agency. In terms of decision-making, the need for staff training and relevant skills is vital to ensure that correct and informed decisions are being made.

- **Information and communication control** - timely and relevant information is necessary to ensure the correct decision is made. Having quick and easy access to information increases the consistency and accuracy of decision-making. Having access to decision support and knowledge-based systems aids this process.

- **Risk management control** - while some risk encourages innovation and better performance, uncontrollable risk hinders an agency from reaching its goals efficiently and effectively. While all risk cannot be
dissolved when making a decision, effective risk management processes ensure that there is a systematic evaluation and ranking of all decisions.

A better practice guide to effective control has been produced by the ANAO which sets out these principles in more detail. Australian National Audit Office, 1997. Controlling Performances and Outcomes: Better Practice Guide to Effective Control.

The process of decision-making can encompass a wide range of difficulties. However, experience demonstrates that, as a general rule, we in the APS do not take endless time to make decisions. We can make quick decisions. However, I am sure that everybody has, at some stage, made a decision in haste that they have lived to regret. It is even more unfortunate when those adversely affected by such decisions are the very people that the program or activity was designed to help. Often a quick solution is not the best solution. The emphasis has to be, as Allan Hawke, Secretary of the Department of Transport and Regional Services, recently indicated to me, on making the ‘right’ rather than quick decisions Hawke, Allan Dr, 1998. Personal letter to the Auditor-General. 23 December. It is for this reason that so much emphasis has been placed on risk management processes in decision-making in recent years. Allan also indicated that his Executive Group is allocating around 20 per cent of their time to long term strategic issues which can only enhance their ability to adopt well thought out and supportive structures for their governance framework and systematic decision-making.

My view of risk management is that it is an essential underlying element of the reforms that are currently taking place in the public sector. 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 getting the balance right. 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.

To add some context to the discussion and because there have been so many different explanations of risk management and what it is supposed to involve, you might want to consider the following definition that has received considerable support:

… 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 [negative impacts] and maximise
In short, risk management is integral to all decision-making approaches and processes. The former may range from simple intuitive judgements, based on knowledge and experience, to quite complex statistical analysis and modelling approaches using relatively sophisticated techniques.

As the above definition highlights, the implementation of risk management procedures is a necessary part of any decision-making process adopted because it will enable an agency to maximise opportunities. This concept is particularly relevant to the APS because risk management applies to more than just the profits and losses of an agency, it is a tool which can be used to identify realistic opportunities for improved performance and enhanced assurance to stakeholders, both internal and external to the organisation. Internal control is integral to management actions taken to exploit such opportunities and achieve the best possible program and other outcomes.

Whether consciously or not, we all make risk management decisions as part of everyday life. Some would say that it is simply commonsense. However, more often than not, a single commonsense answer is not always clear, particularly when we are confronted with a number of alternatives in a workplace environment. Our own values, judgements and adversity to risk influence the way we make decisions, making the term ‘commonsense’ in many cases more a matter of personal judgement rather than necessarily identifying the ‘best’ alternative. The issue really is how the latter is to be determined where judgement often impacts differently on the variables and the balance to be struck across them. This is where transparency in decision-making becomes essential. This particular element of accountability is also important in the determination of means and ends. In the public sector, it is often not just outcomes that are of concern to the Parliament and the general public. Outputs and the processes by which these are delivered, including the impacts on service recipients, matter as well and must also be subject to external scrutiny.

When looking at decision-making from an agency point of view it is important that agency tolerances to risk are clearly established from the outset. Without a clear risk management framework, decisions are made from individual managers’ points of view. This will almost certainly lead to inconsistent, unclear and uninformed decisions being made by the agency. Therefore, it is important for every public sector agency to develop and implement a risk management framework where the corporate tolerances to risk are clearly explained and adhered to. This could be part of a ‘control self-assessment framework’ either as a complement, or a partial substitute, to an internal audit program. Any such frameworks can only provide ‘reasonable’ not ‘absolute’ assurance similar to the legally based
‘reasonable person test’. The legal system usually respects judgements taken in good faith, particularly when it is in the best interests of the organisation.

That is not to say that a risk management framework should be inflexible, particularly when issues such as contracting out and competitive tendering arise. As contestability and contacting out simultaneously represent one of the vehicles for improved business performance and accountability as part of current APS reforms, it would be remiss of any organisation to shut out options not previously accounted for as a result of outdated risk management practices and frameworks. Again, it is necessary for APS managers to keep themselves informed of the latest developments in risk management both in the public and private sectors and learn from those experiences. This should be part of the continuous improvement process which our Better Practice Guides are intended to complement. The following pragmatic observation is very relevant to the thrust of this address:

> While veteran contract managers will have, through long experience, gained a sense of the shape of the risk-costs tradeoff curve, new contract managers will need to take a more systematic, approach to this task if they are to perform at a high level.


**Current risk management practices noted in audits**

Turning now to 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, I would simply say that the ANAO’s effectiveness is directly related to the extent to which we understand the environment in which we work. The ANAO, as an agency with a key role in providing assurance to the Parliament and in encouraging improvements to administration, 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 reforms to public sector operations in the conduct of our own work but we must also 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 through 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 community expectations. That is part of our risk assessment.

Over the past couple of years the ANAO has placed increased emphasis on the need for sound corporate governance frameworks which include effective risk management controls within agencies. During 1994-95, the ANAO conducted, as part of its financial statement work, an assessment of the financial risk management processes of 113 entities. Overall, we found that considerable progress had been made in the adoption of risk management philosophies and approaches, with the majority of entities having a financial risk management process in place (50 per cent of those reviewed) or in the process of developing them (48 per cent). Australian National Audit Office, Auditor-General Report No. 13, 1995-96. Results of the 1994-95 Financial Statement Audits of Commonwealth Entities, November.

During the 1995-96 round of financial statement audits, the progress made in the development of risk management procedures was followed up and the outcome included in my report to the Parliament on the Results of the 1995-96 Financial Statements Audits (tabled in December 1996). Australian National Audit Office, Auditor-General Report No. 19, 1996-97. Results of the 1995-96 Financial Statement Audits of Commonwealth Entities, December. 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, although some are more advanced than others, agencies are continuing to develop appropriate risk management processes.

ANAO audits of 1997-98 financial statements highlighted the following issues in relation to the control structures within Commonwealth entities (agencies and statutory bodies):

- the need for improved information technology (IT) controls;
- scope for improvement in asset management, recording and valuations;
- the need for timely and accurate reconciliations of financial records; and
attention to the adequacy and reliability of accounting systems.

While noting general improvement in controls over IT systems in 1997-98, we found that deficiencies continue to be identified which pose risks to entities achieving their objectives. In particular, we noted that the unregulated provision of access to government information, and the provision of access rights to an unnecessarily large number of users beyond their functional needs, pose significant risks to entities. Australian National Audit Office, Auditor-General Report No. 20, 1998-99. Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 1998: Summary of Results and Financial Outcomes, June.

Agencies have been encouraged to broaden their assessments and strategies consistent with the MAB/MIAC Guidelines for Managing Risk in the Australian Public Service, released in October 1996. MAB/MIAC Report No.22, 1996. Guidelines for Managing Risk in the Australian Public Service, Canberra, October. I would stress that an important message from these guidelines is the need to adopt a systematic, not ad hoc, approach to risk management. There are no short cuts to risk assessment, analysis, prioritisation and treatment. In my view, the best defence of any decision can be a sound risk assessment. That will not necessarily remove any criticism for mistakes or errors of judgement but it will greatly ameliorate it.

As part of our role in encouraging the integration of risk management practices and concepts into the mainstream operations of the wider public service, the ANAO has recently completed performance audits in the ATO and the ACS which specifically examined the risk management process employed by those agencies. The audits were designed to be complementary and to develop a picture of the adoption, implementation and application of risk management processes as outlined in the MAB/MIAC Guidelines. I would like to briefly discuss the main points of each report in relation to risk management.

The ATO Risk Management performance audit, tabled in June 1997, recognised the considerable progress made by the ATO in adopting risk management practices. Australian National Audit Office, Auditor-General Report No. 37, 1996-97. Risk Management - Australian Taxation Office, June. A number of recommendations for further improvement were also included in the report. One of the major issues raised was the increased need for a management information system to support the risk management process. The report also highlighted the need to monitor and review progress against achievement of risk management objectives and strategies as well as the need for adequate documentation to ensure a transparent risk management process.
A subsequent audit of risk management in the ATO reviewed the operational application of risk management practices in the ATO’s Small Business Income business line. Australian National Audit Office, Auditor-General Report No. 19, 1997-98. *Risk Management in ATO Small Business Income - Australian Taxation Office*, December. This report, which was tabled in December 1997, stressed the need for continued refinement of risk management processes for the identification, analysis, assessment and prioritisation of individual risks. The report also recommended the ATO monitor the costs and benefits of treatment regimes to assist with the development of future risk management strategies.

Since those audits have been tabled, the ATO has taken on board the ANAO’s recommendations and has attempted to refine its risk management framework. The result of this process is a document that assesses the risks of the organisation as a whole initially, with a series of further documents that expand upon the risks of each program, at a much more detailed level. This document is then used to determine the allocation of resources for the following year based on the risk of particular functions and programs. The ATO has also improved the transparency of its risk management processes and is therefore better able to justify the decision made during its risk management processes to both internal and external stakeholders.

The other agency I particularly want to mention is the Australian Customs Service, and the efforts they have made with the introduction of their risk management system.

A recent audit of the Australian Customs Service focussed on Risk Management in Commercial Compliance. Australian National Audit Office, Auditor-General Report No. 6, 1997-98. *Risk Management in Commercial Compliance - Australian Customs Service*, October. This audit concluded that sound progress had been made by the Commercial Compliance Branch in introducing formal risk management processes. The report, which was tabled in October 1997, highlighted the need for improvements in:

- the quality of information used in the risk management process; and

- the quality and extent of documentation regarding the process undertaken and reasons for decisions made.

The ANAO also considered that Custom’s risk management practices would benefit from making greater use of qualitative and quantitative analytical techniques to identify, analyse, assess and prioritise risks.
The report underlined the importance of having a plan and strategy for introducing risk management and establishing timeframes and milestones against which to measure progress. We noted that emphasising the importance of risk management and promoting the adoption of thorough risk management practices would contribute to better outcomes for the agency. To achieve this aim, we suggested that Customs clearly establish a date when senior management can rely on the information generated through the risk management process for strategic decisions in business planning and resourcing.

The ANAO also identified some better practice undertaken by Customs 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 introduction of risk management and establishing a coordination unit for implementation has helped to continue the momentum for adopting risk management. Maintaining momentum when introducing and using risk management is important to ensure that it remains a central feature of the agency’s operations. We encourage all agencies implementing risk management to appoint a senior executive to oversee and maintain the program for introduction of risk management practices.

I would like to mention in particular the work performed by Colin Vassarotti from the Australian Customs Service (ACS) on risk management. The risk management research conducted by Customs has been recognised and adopted by several public sector organisations. The publication, *Risk Management: A Customs Perspective* Australian Customs Service, 1993. *Risk Management: A Customs Perspective*, November, is still a useful guide to the implementation of a risk management framework in public sector agencies. A recent paper prepared by Colin continues the ACS’s use of risk management to facilitate cargo clearance and improve enforcement outcomes and overall efficiency. He made an observation that is particularly relevant to the subject of this paper as follows:

...*Risk management depends on quality information. For sound risk management decision-making it is absolutely critical that the information upon which decisions are based is accurate, relevant and timely.* Vassarotti, Colin, 1998. *Customs Risk Management - Opportunities, Options and Obligations for Freight Forwarders*, FIATA World Congress, Sydney, 22 September, (page 7).

There are aspects of both the ATO and Customs’ systems that represent risk management better practice in the APS. The Customs’ approach concentrated on getting the process right in a discrete area before including all areas of the organisation. In contrast, the ATO approach
included agency-wide application from the outset with the intention of incrementally improving the process each year.

Another example of the introduction of risk management practices can be found in my agency, the Australian National Audit Office (ANAO). My role includes reporting to the Parliament on issues relating to the administrative effectiveness and efficiency of APS entities, as well as their financial performance. At the ANAO, we use risk management practices as part of our planning framework to identify future performance audit topics.

Finally, I would like to point out that audit committees provide a complementary vehicle for implementing 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 that they markedly improve company performance, including decision-making.

**Important elements of a risk management framework**

The implementation of a risk management framework is a necessary part of ensuring the consistency of decisions made by an agency. As previously mentioned, decisions made without corporate guidance carry a substantial risk of error due to personal subjectivity and lack of corporate knowledge. By including corporate guidance for managers who make decisions as part of risk management processes, an agency can increase the probability that the decisions made will be consistent with stated outcomes. Ultimately this will lead to more efficient and effective achievement of stated goals. Processes which encourage consistency in decision-making also lead to better outcomes for clients as they invariably lead to fairer and more equitable treatment of clients. A more interrelated framework also assists in overcoming some of the ‘left hand not knowing what the right hand is doing’ problems.

Another important principle of an effective risk management framework is the transparency of decision-making processes, as I have earlier stressed. Transparency is achieved by ensuring that the decision-making process and the reasons for decisions made are adequately documented and communicated to stakeholders. From an ANAO perspective, documentation of key risk management principles and management decisions is an essential element of the public sector accountability framework. As the ANAO is a key element of this framework, we need to understand the reasons behind agency decisions.

Both the ANAO and the Parliament focus on whether:
· all relevant factors were considered by the decision-maker;

· a fair, reasonable and transparent method was used to reach a decision; and

· the decision was conveyed appropriately to relevant stakeholders.

Both parties will also seek evidence that the decisions made in an agency promote the cost-effective achievement of program objectives and performance requirements.

I will not attempt to justify the collection of vast quantities of documentation purely for the benefit of review agencies. This point has been reinforced by George Nichols, Director-General of the National Archives of Australia who advised that:

… the National Archives does not advocate keeping large quantities of records unnecessarily - indeed we would prefer that far fewer but far more relevant records were created and maintained only for the period necessary. Nichols, George, 1998. Personal letter to the Auditor-General, 12 December.

The National Archives Guidelines for record-keeping in outsourcing arrangements Australian National Archives 1998. ‘Records Issues for Outsourcing. Canberra, July. also point out that proper record-keeping is a crucial part of all government administration and accountability. Moreover, as well as improving the auditability of decisions, documenting and communicating key processes and decisions can:

· improve the consistency of decisions made by the agency over time;

· provide agency senior management with confidence that decisions made throughout their organisation contribute to the cost-effective achievement of stated outcomes;

· promote a shared ownership of decisions throughout the agency; and

· place the agency in a considerably stronger position to defend to the Parliament and clients any decisions made.
I would like to stress that the ANAO’s emphasis is on improving management performance not simply pointing out where agencies have got it wrong. To put it another way, we are primarily in the business of providing assurance about, and adding value to, public administration. The latter will be progressed by focusing on action in train or better practice that can be adopted to overcome any problems observed.

In terms of agency decision-making, this means that if an agency happens to make an unfortunate decision, based on a considered risk management approach with strong lines of accountability, there is little ground for criticism by my Office. We recognise that there is an element of risk in every decision an agency makes, and there is no way that every eventuality can be identified and accurately considered. However, a strong risk management framework provides assurance to management and stakeholders (particularly the Parliament and the ANAO - in an audit context) that there is a high probability that decisions made by an agency will be well-considered, consistent and highly effective.

Another key ingredient in developing a successful risk management framework is obtaining the commitment of our people referred to earlier. The following is an instructive observation by Allan Hawke:

… A safe, trusting, diverse working environment is essential for effective decision-making. Individuals need to trust that they can provide challenges to the decision-making process, if they feel that the goals of the organisation are not being served…When articulating a clear risk management framework, more needs to be done than simply stating the corporate goals. The organisation needs to first, differentiate between ‘means’ and ‘ends’ and second, communicate the ‘ends’ so that its people know, understand and act within this framework consistently. It is about aligning individual behaviour with the risk management framework. Op.cit., Hawke, Allan, 1998.

I wholeheartedly support these comments and firmly believe that managers who ignore this advice do so at their personal and organisational expense.

V. QUALITY AND TIMELY INFORMATION FOR INFORMED DECISION-MAKING

An important element of any decision-making process is having ready, user-friendly access by managers and other agency staff to relevant and high quality information upon which they can base their decisions. It is of
fundamental importance that the information used by managers in decision-
making processes is relevant and reliable and available in a form, and at a
time, that meets the needs of the particular situation.

If poor quality information is used by decision-makers, it is obvious that the
probability of making poor decisions will considerably increase.
Irrespective of the frameworks and processes installed by an agency, if the
information upon which those decisions are based is flawed, the whole
decision-making process will be undermined. Clearly, this is an
unacceptable situation. Yet how many of us actually know whether we
have the ‘right’ and/or ‘sufficient’ information? The problem is accentuated
with, say, the departure of a considerable body of corporate knowledge,
when there is even more dependence on our information systems. This is
another element of risk management that requires attention in a period of
high staff turn-over and/or outsourcing of agency activities, including
service delivery.

When an organisation collects information to be used by management in
making decisions it is imperative that the information concerned has some
relevance to the people who use it. Relevant information can dramatically
influence the time taken to make informed decisions as well as obviously
improving decision-making. This applies to information both from our
internal and external environments, with the latter often requiring particular
attention by management to ensure its relevance and availability.

It is good practice to think outside the perimeters of your own agency when
gathering relevant information for decision-making. We need to be aware
of both the information we may require from other agencies and the
information other agencies may require from us. For example, information
on social security payments is needed by both the Australian Taxation
Office and the Department of Family and Community Services. As a result,
when thinking strategically about the design of an information system, one
must also consider data exchange protocols with other agencies. Despite
quite valid privacy protection reservations about the use of data matching,
there is no doubt that it has facilitated better decision-making as well as
saving the taxpayer many hundreds of millions of dollars.

The past decade has seen a radical transformation take place in the role of
Information Technology (IT) in organisations worldwide. Technology has
given us the ability to store and access enormous amounts of information
and provides us the means to extract efficiently useful information for
decision-making, particularly from the Internet.

It is interesting to note that twenty years ago it would not have been
possible to subject agencies to the level of scrutiny that we do today. With
extra processing power comes the increased burden of expectation, as agency stakeholders now routinely require detailed information.

The capabilities of modern technology, both in communications and computing, also broaden the horizons for the amount of information agencies can capture. Utilising tools such as the Internet has opened up an enormous pool of information from which agencies can draw and benefit. However, this increased ability to capture and store information in itself has created problems with the ability of organisations to sift, disseminate, interpret and use the information currently available. As well, there are security issues which have raised the risks to agencies’ computing environments and which are being addressed through so-called ‘firewalls’ (which are basically software protection) or through physical separation. Data encryption systems have been developed to provide a degree of assurance. These have seen a move towards some kind of public key encryption arrangement. No doubt we will hear more of this latter initiative.

Many agencies throughout the APS collect vast quantities information that can be used in decision-making processes. The amount of information collected by agencies such as the Department of Social Security and the Australian Taxation Office each year as part of their day-to-day activities is astounding. Although the advent of sophisticated data storage and interrogation technology during recent years has made it easier, and cheaper, for managers to access the information necessary to make decisions, this technology has also significantly increased the amount of information which can be stored by agencies. This, in turn, has led to its own problems of information selection, ‘weeding’, disposal and archiving.

As well as increasing the costs associated with maintaining information, large amounts of data reduce the timeliness of decisions as managers can be forced to spend a considerable amount of time reviewing the data for usefulness. The imperative is then to translate data into information. Agencies must therefore clearly define the information they need to make effective decisions and leave the data sorting/retention problem to the data warehouse.

Once information needs have been clearly defined and relevant information has been collected, agencies must then ensure that procedures are put in place which will maintain the relevance of the information collected. Basing decisions on information that is outdated can, again, fundamentally undermine the decision-making process. Electronic updates can be very cost-effective, providing suitable compatibility and security arrangements are in place.
Access to information in a user-friendly format is another factor which must be considered by an agency when implementing decision-making processes. User-friendly interfaces which enable decision-makers to readily access relevant information can considerably improve the timeliness of decisions. Users are increasingly demanding seamless information that does not have to be reformatted or reworked.

The Australian Taxation Office stores enormous quantities of taxpayer data in a series of databases within its data warehouse. Direct access to the data warehouse by all decision-makers within the ATO is impractical because a great deal of technical knowledge is necessary regarding the format of the data and data extraction methods. The ATO has sought to remedy these problems by constructing user-friendly interfaces which can be used by non-technical staff to query and extract data from the data warehouse. An obvious alternative is the automatic availability of ‘standard’ or ‘customised’ reports.

A generic example of a user-friendly interface is an executive information system which provides decision-makers at all levels with access as needed to the information contained in the agency’s corporate systems such as the financial management information system and the human resource management system. Thus the relevant manager can focus, say, on strategic issues to add value and, as necessary, get access to more detailed information for decision-making. As well as improving decision-makers’ access to information, current information technology initiatives are focussed on setting up entire systems to support the decision-making process.

These initiatives include decision support systems which can be used to analyse alternative sources of action in a decision situation. Decision support systems can provide managers with ‘what if’ tools to pre-test the potential outcome of different decisions. Simulators, which use existing business data and mathematical models to project the implications of alternative decisions, are an example of a more advanced type of decision support system. Decision support systems can also reduce, to some extent, the problems decision-makers have in articulating their information needs to information technology specialists.

Many private sector and overseas public sector organisations have benefited from the use of these 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.
Expert systems are another information technology-based, decision-making tool which has emerged during recent years. Expert systems use artificial intelligence technology and are encoded with human knowledge and experience to achieve expert levels of problem solving. While this technology is still very much in its infancy, expert systems are gradually finding their way out of the research laboratories and into the business sector.

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.

I would like to stress the importance of implementing effective record-keeping systems in an environment where significant decision-making is taking place through electronic media.

In terms of the ANAO’s experience with agency IT systems generally, I have already noted that a number of concerning trends have started to emerge regarding the security and internal control mechanisms of IT systems in public sector agencies. These issues have been raised in the findings of several recent ANAO financial statement audits. As well, my annual reports to the Parliament on those audits have conveyed similar concerns which put agency systems at risk.

The attention given to the issue of security and controls of IT systems by the ANAO is particularly timely, given the Government’s commitment in 1997 to deliver:

all appropriate Commonwealth services electronically on the Internet by 2001.  
(page xii).
My Office is currently undertaking an audit of electronic commerce across all agencies covered by the Financial Management Act (FMA), to determine what business and services are already conducted electronically, and whether FMA agencies will be able to meet the Government’s commitment to deliver all appropriate services by 2001. The electronic commerce audit report is due to be tabled in August 1999.

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. This does not just apply to systems requiring secure transfers of data over the Internet, but to all IT systems. We are also planning a series of Assurance and Control Assessment (ACA) audits covering a range of Protective Security Arrangements which will include fraud control planning, physical security, communications security and business continuity issues.

The ANAO has been endeavouring to bring the issue of IT controls and security to the attention of all public sector agencies. Our first step in this process has been the production of a better practice guide (released in October 1998) in relation to security and control for the SAP R/3 system. Australian National Audit Office, 1998. Better Practice Guide: Security and Control for SAP R/3, October. SAP R/3 is the most widely-used financial management information system in the APS today with 26 Commonwealth entities currently using it. The areas covered by the guide include the amount of time and investment necessary for effective implementation of the system to minimise the risk of future security problems. While the guide deals specifically with SAP R/3, generic risk management controls are discussed which can be applied to other financial management information systems.

Another technology issue recently highlighted by the ANAO is the challenges faced by managers in ensuring that the information technology systems they have in place are Year 2000 (Y2K) compliant.

As outlined above, information technology now plays a substantial role in delivering information quickly and efficiently to decision-makers and this role is continuing to grow. Y2K compliance is therefore a significant issue for decision-makers. In 1997, I tabled a report on managing the Y2K problem which involved a survey of a wide range of Commonwealth agencies’ Y2K preparedness and their management of the problem. Australian National Audit Office, Auditor-General Report No. 27, 1997-98. Managing the Year 2000 Problem Risk Assessment and Management in Commonwealth Agencies, December.

One of the key messages this report reinforces is that the Y2K problem is not simply an Information Technology problem. Rather, it is a whole-of-
business problem, with potential ramifications which go well beyond immediate impacts upon particular business systems or processes. It places at risk the credibility and, indeed, the viability of individual businesses and organisations. Put simply, organisations which have not taken steps to identify their Y2K exposures and implement strategies to minimise the likelihood of Y2K compliance failure, run the risk of not being able to deliver required results and make effective decisions. That risk also extends to related or dependent program outputs or outcomes quite possibly in ways not evident to other stakeholders, at least for some period of time.

A follow-up report was tabled in December 1998. A key conclusion from the audit was that the Y2K problem continues to require a strong executive management focus. The report also stresses the need for each Commonwealth body to closely monitor and report its progress towards Y2K compliance, both to ensure effective internal governance and to support monitoring and reporting on a whole-of-government basis.


The gravity of the Y2K problem makes it necessary for agencies to ensure they have not only taken steps to test for and eliminate the Y2K problem from critical systems, but have also put contingency plans in place which deal with possible failure scenarios including by essential service suppliers such as utilities (communications, electricity, water, gas and sewage). This includes setting clear priorities for action and identifying resource implications. An important assurance is provided by having testing programs for all systems likely to experience a Y2K problem. Nothing can be taken for granted. It all comes down to having a systematic approach to risk management with the emphasis on risk identification, assessment, prioritisation, treatment and revenue/evaluation. The issue is not about tedious and unnecessarily costly control processes but about investment in organisation reputation, asset preservation, performance (outputs and outcomes) and job satisfaction.

VI. APPROPRIATE SKILLS FOR DECISION-MAKERS

Ensuring decision-makers have the appropriate skills to make decisions is also an essential element in ensuring reliable, accurate and timely decisions are made. This is particularly the case in an environment where new skills are required to analyse and use accrual accounting information and manage contracts and projects. A lack of requisite skills in these areas will make it difficult for agencies to comply with mandatory requirements
and have a negative impact on the efficiency and effectiveness of decision-making.

The introduction of accrual accounting and budgeting concepts plays an important role in ensuring that agencies focus on outcomes and outputs and in increasing the accountability of agency decision-makers. It is vital that decision-makers have a sufficiently comprehensive understanding of these concepts to make full use of available accrual information both in their management functions and in making decisions.

There are two issues which I consider require specific mention in relation to the new accrual framework.

First, as successful implementation of accrual accounting concepts in the public sector will rely heavily upon the setting of realisable targets, and/or milestones, for identified outputs and outcomes, expectations that are too broad, unrealistic or unmeasurable will not encourage improvements in performance. This is particularly the case where a required outcome spans more than one agency and may take several years to achieve making it difficult to align relevant outputs, their timing and contribution. In this situation, it is often impractical to allocate specific responsibility and subsequently determine accountability. However, the opportunity is presented for agencies to set and strive to achieve intermediate outcomes to which they can more readily relate their outputs, particularly in a more manageable timeframe for accountability purposes. The latter are more likely to be credible and acceptable where that relationship is clearly specified and/or articulated, preferably in quantitative terms but at least qualitatively. This will make it more likely that Government initiatives are effectively managed and implemented by individual agencies both in the short and longer term.

Second, the financial accountability framework provided under an accrual budgeting system should not exist solely for the purpose of providing financial reports to external agencies, rather its primary purpose should be to form part of the internal decision-making system. Recent experience has shown that this is not always the case. In fact, the current reforms, which include a greater focus on outputs and outcomes, have resulted from the apparent gap between the information used for external reporting purposes and the information used by management in day-to-day decision-making processes. That is, the framework from which reports are issued to external agencies has often been separated from the internal responsibility framework upon which agency managers actually base their decisions.

The introduction of accrual budgeting is an attempt to change the type of information used regularly by managers to make decisions as it provides
information that better reflects the agency’s current financial situation. In essence:

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 public sector. It is also essential if the accountability requirements of the Parliament and the taxpayer, and the Government’s commitment to a Charter of Budget Honesty, are to be met. National Commission of Audit, 1996. Report to the Commonwealth Government, June, (page 226).

Recent Government reforms have also increased the emphasis on the contracting out of services previously provided directly by public sector agencies. In this environment, contract and project management skills are of enormous importance. Many more public sector decision-makers will be required to have such skills. The problem is how to both encourage and provide the necessary opportunities for them to acquire and build on those skills. It is not simply a matter of training. Perhaps we should be working harder to encourage personnel exchanges with the private sector both to enhance agency capability and to develop personal skills.

During recent years the management of contracts by public sector agencies has been of particular concern to my Office and I have tabled a number of audit reports which address this area. The Parliament and the media have also paid particular attention to these issues during the past two years with several agencies receiving significant adverse comments and publicity. This situation has to be addressed as a matter of urgency. The public service has to reverse these concerns to win back the confidence of all stakeholders.

A common theme of recent audit reports dealing with project and contract management has been the deficiencies in the related skills of agency decision-makers, despite the fact that some of these projects involve substantial resources and complexity. These deficiencies have been highlighted in a number of studies drawing conclusions such as the following:

… the area that emerged from all of the case studies as critical for effective contract management was the importance of having the right skills. MAB/MIAC REPORT No.23 1997. ‘Before You Sign the Dotted Line’, Canberra, May (page 61).

In June 1996, I tabled a report on the Jindalee Operational Radar Network. This report examined the performance of the Defence Department’s
management of a contract with Telstra (the principal contractor) for the construction of a long-range sky-wave over-the-horizon radar network at an estimated overall project cost of $1.1 billion. Australian National Audit Office, Auditor-General Report No. 28, 1995-96. *Jindalee Operational Radar Network Project*, June. The objective of the audit was to assess the performance of the Department's management of the project in the light of accepted project management techniques, including risk management.

The audit found that progress payments had not been necessarily linked to the project's earned value at each milestone and consequently, with 80 per cent of the prime contract target price spent and after 80 per cent of the original elapsed time frame, less than 18 per cent of items had passed critical design reviews. A more systematic and disciplined monitoring of defined milestones coupled with close auditing and regular assessment would have aided better risk management. The key message of this report is that, in these circumstances, it is extremely important that decision-makers have sound contract and project management skills.

In December 1997, I tabled an audit report on matters relevant to a Department of Employment Education Training and Youth Affairs (DEETYA) contract with South Pacific Cruise Lines Ltd (SPCL). Australian National Audit Office, Auditor-General Report No. 24, 1997-98. *Matters Relevant to a Contract with South Pacific Cruise Lines Ltd*, December. This audit was conducted as a result of a specific request from the then Minister for Employment, Education, Training and Youth Affairs.

DEETYA had entered into a formal agreement with SPCL for the delivery of a ten week program of pre-employment training for long term unemployed persons and the subsequent employment within SPCL of all successful participants. SPCL subsequently abandoned the project citing reasons such as the withdrawal of key financial backers due to adverse media and political interest.

With respect to the project management of the SPCL contract, the ANAO found that DEETYA did not:

· adequately assess the cruise line proposal, in particular to determine whether it offered good value for money to the Commonwealth;

· adequately apply accepted risk management practices to the cruise line proposal/project;

· develop a contract that clearly specified what was to be delivered and the outcomes to be achieved; and
· adequately manage the subsequent administration and oversight of the contract with SPCL (up to the contract's termination date).

The audit report went on to say:

... the Department failed to provide full candid and, in a significant instance, timely briefings to the then Minister in relation to the SPCL contract. This has consequences for the accountability of the Department and the then Minister, and contributed to the adverse media and political impact surrounding both the contract and the collapse of the cruise line venture. Ibid, (page xvii).

I fully recognise the constructive response of the Department which noted that officers had acted with the best of intentions for the clients. Nevertheless, the Department conceded that:

... closer adherence to the program guidelines initially would have avoided some of the subsequent difficulties with this project. Ibid, (page xxiv).

As I have already mentioned, the ANAO recognises that an increasing emphasis on outcomes has been a key factor in enhancing the efficiency and effectiveness of the public sector. However, sound administrative processes and effective management are also critical to sustaining long-term performance. The message here is that it is not sufficient to focus on outcomes alone, rather that sound processes and effective management are also necessary to reduce the risk of unfavourable repercussions.

I also need to highlight the fact that our decisions may not only impact on the reputation of our agencies, they can also affect the reputations of our stakeholders. In contrast, we have seen a number of examples where agencies have effectively achieved outcomes as a result of sound project and contract management skills. An example of this is the implementation of the new Employment Services Market.

The Federal Government announced, as part of its labour market reforms package in 1996, the replacement of the Commonwealth Employment Service (CES), Employment Assistance Australia (EAA), and the Employment Services Regulatory Authority (ESRA) with a corporatised public provider that would operate and compete on the same basis as competitors in the private and community sectors. This new market (now...
known as the Job Network) involved linking payment structures and incentives for service providers to the placement of job seekers in work.

In September 1998, I tabled a report which examined the management of this process. Australian National Audit Office, Auditor-General Report No. 7, 1997-98. Management of the Implementation of the New Employment Services Market, September. We found that DEETYA had followed key principles of good project management in implementing the new market arrangements, that each of the project planning criteria had been met and that risks had been managed in line with good practice. The ANAO identified a range of good practices implemented by the Department and examples are highlighted throughout the report.

However, there is always scope for improvement, even for well managed projects and a number of lessons for the future were highlighted in the report. For example, we noted that service providers may have benefited from information which would assist with budget development. I also suggest that a built-in review mechanism (which would enable service providers to terminate their contract with no adverse consequences) might have been considered, particularly in light of the infancy of the market. Improvements in these areas may have reduced the likelihood that service providers would face significant financial difficulties recently being reported in the media Martin, Chelsey 1998. ‘Job Network Providers need $1 billion boost or 25 per cent face ruin’. The Australian Financial Review 10 October (page 3). in attempting to fulfil their contractual obligations. Even more recently, an Australian Chamber of Commerce and Industry survey indicated that:


Development of the Employment Services Network provides a good example of the inherent difficulties in applying a commercial model to the contracting out of community services where there was not previously such a market. With the abovementioned media reports suggesting that up to 80 of the original 321 service providers are/were experiencing financial difficulties, it would seem that systematic monitoring, review and regular reporting should be part of the management strategy to prevent, or at least limit, such occurrences. This situation emphasises the need to recognise the complex set of objectives and stakeholder views which must be taken into account when we take decisions in the public sector. From a client service perspective, there is also the consideration of the impact of a
service provider’s closure on the unemployed and preservation of their rights as citizens.

Each of the above examples highlights the importance of having a strong project and contract management skills base which can be drawn upon to make decisions. This does not necessitate a full time complement of skilled project and contract managers. Rather, agencies should ensure that if the current decision-makers do not have the requisite skills, external expertise is obtained. Nevertheless, agencies should be cognisant of Parliament’s view that ultimate accountability for project or contract management performance remains with the agency concerned. This suggests that the latter has to ensure it has sufficient capacity and opportunity to do so.

I mentioned earlier the important role effective leadership plays in making sound decisions. I consider such leadership is essential for good project and contract management. If we are really serious about establishing genuine partnerships with the private sector, we need to think, act and communicate strategically. Anything else is merely ad hoc and reactionary. I would, however, stress that the observation applies to both sectors. It is not simply a case of the private sector taking over, or largely becoming the public sector by default. Distinctions can, and should, be made on the grounds indicated earlier, and the law of comparative advantage applied as necessary -using economic rationalist terms. Nevertheless, at the end of the day, it is performance and results (outcomes) which actually matter. We need to ensure we have the confidence, determination and skills to put in place a systematic framework of decision-making which ensures our performance is not eroded by default through incapacity of our own making.

VII. CONCLUDING REMARKS

I would like to conclude by reiterating a couple of significant points made earlier.

We have seen major changes in the public sector environment during recent years and all the signs indicate that this will continue to be the case. The world never has and never will stand still. Reforms such as contestability for the delivery of services, competitive tendering and contracting and an emphasis on clients have changed the way we deliver our services and products. As a result, we must constantly review our administrative processes, and particularly our decision-making processes, to ensure that the decisions we make are timely, consistent, accurate and
take account of our increasingly complex environment. Ultimately, this will lead to quality outcomes for our clients, the Parliament and the Australian community in general.

There are steps we can take to maximise these outcomes. By starting with an effective corporate governance framework, which focuses on objectives and performance and incorporates structured control systems including sound risk management practices, we increase the likelihood that the decisions we make meet the above criteria. We also ensure that the decisions we make are defendable to the Parliament, the public and external review agencies. This should promote greater trust and confidence in the public service and foster a belief in its professionalism. The essence of accountability is transparency and openness which is both a strength of, and a discipline on, the public sector. Our decision-making needs to reflect an appropriate balance between often apparently conflicting ends such as freedom of information and privacy concerns within the overall objective of achieving value for money.

I realise that, by focusing on the processes involved, I open myself up to the usual criticism that audit is only concerned with control. However, I firmly believe that there is no substitute for a systematic approach to these issues. This is the best insurance for managers because if appropriate corporate structures and systems are in place (including good decision-making processes), then better decisions will result. This can only increase the quality and cost-effectiveness of the services we provide to clients.

I would also like to stress that, while sound processes will lead to better outcomes, they must allow for uncertainty in decision-making. Risk management frameworks must be sufficiently flexible to deal with uncertainty and to enable those at the coal face to cope well with situations as they arise. Devolution of authority facilitates this outcome but has to be accompanied by commensurate accountability. In a more market-oriented environment there is an added risk management imperative.

Finally, I would like to reiterate that the ANAO recognises, despite the existence of sound administrative processes, that less than satisfactory decisions will be made from time to time. Our focus is on what supports the decision-making process, for example, whether or not a systematic approach, which fully evaluates risks, has been taken in arriving at a decision and whether the information base is reliable. If processes and reasoning are well documented and complemented by strong lines of accountability, then the ANAO will be primarily interested in what can be done to ensure there is a minimal risk of taking such a decision again. Where this is the case, the emphasis will be on gain not blame and providing support for the decision-making process to the Parliament.
At the end of the day we will all be held accountable for our decisions. That includes how they are made as well as what outcomes are achieved. This does not happen by accident. It is greatly helped by a systematic approach to decision-making that builds in the necessary management elements to cope with the range of risks involved including regular monitoring and review. Often the latter will depend on the availability of timely and relevant information supported by sound record-keeping practices. Our focus has to be on both our internal and external environments while making best use of increasingly lower cost systems based on electronic technology with their attendant risks, not the least of which are in delivering quality (usefulness for purpose) and not just quantity of information.

Accountability will demand that we are always in a position to explain the basis of our decisions if requested. That accountability extends to ensuring we have taken effective action where the factors bearing on those decisions have changed or where we have simply made an error of judgment. Accountability means being under scrutiny. It is endemic to our democratic system. That is one of the challenges of working in the public sector, including that we take decisions which can be shown to be effective and help to achieve the outputs and outcomes required of us as a highly performing public service.
NOTES AND REFERENCES

Bibliography


Ernst & Young 1995, *Corporate Governance, presentation for the ANAO*, 18 December, Canberra.


