

UN Results Based Management Seminar

Results Based Management and Performance Reporting – an Australian Perspective

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Results Based Management and Performance Reporting – An Australian Perspective

I. Introduction

Thanks for the invitation to speak at your seminar. While recognising country differences, I hope that my presentation will provide a few useful pointers on developing good practices relating to results-based management with a particular focus on performance measurement and reporting. Not surprisingly, I will draw on the Australian experience which, over the last 25 years, has seen major shifts in public sector management. Indeed, it could be described as a radical reshaping of public administration in the Australian Public Service (APS) from one that was *‘committed to procedure at the expense of effective outcomes. Due process was the god. Controls from the centre...ensured consistency...and—at least in theory—prevented any irresponsible misuse of public funds’*¹ to one where public officials are *‘required to give a service to the community rather than provide entitlements to those fitting the criteria determined by legislation’*.² One additional, yet important, feature of the traditional APS was its near-monopoly in providing policy advice to governments, where now we operate in a more contestable environment, not just involving Ministers’ Offices, which have expanded significantly, but also including a range of private sector organisations both for profit and not for profit.

The changes that have occurred in Australia over this period have reflected three key reform themes that emerged from the 1976 Royal Commission on Australian Government Administration (RCAGA)³ under the chairmanship of Dr HC Coombs, a highly regarded administrator and adviser. These themes, which have remained central to public sector reform in this country since then, are:

- increased responsiveness to the elected government;
- improved efficiency and effectiveness, with devolution of authority and a stronger emphasis on results; and
- increased community participation in government.⁴

The culmination of these public sector reforms in Australia has seen a merging of a new culture of performance and achievement orientation with the traditional ‘Westminster’ principles of government—resulting in the Australian Government seeking to have a public service that:

- uses resources efficiently, effectively and ethically in order to achieve best results at least cost to the Australian taxpayer;
- provides honest and robust policy advice to the Government of the day;
- delivers fair, effective, impartial and courteous services for all Australians and is responsive to community needs;
- ensures high standards of public accountability;
- competes with, and benchmarks against, best practice in other sectors on both cost and quality;
- fosters a more contestable environment;
- manages for results;

- promotes innovative organisational arrangements; and
- contributes to Australia's international competitiveness.⁵

Finally, Andrew Podger, the Australian Public Service Commissioner, describes the forces that lie behind the reshaping of the Australian public sector as follows:

- technology, particularly in information and communications, has driven globalisation;
- competitive pressures have increased sharply, and the public sector could no longer be kept immune from such pressures;
- increasing community expectations, fuelled by improved education and information, and a more powerful and capable media;
- the rate of change has also been increasing; and
- the pervasiveness of change has also increased.⁶

Against this backdrop, I intend to approach my task today by addressing the following four themes:

– Understanding the Australian Environment

As I intend to draw heavily on the Australian experience, I thought it would be useful to set the scene by providing a brief overview of the national system of government in Australia which draws both from the United Kingdom and the United States, as well as having its own unique characteristics. An understanding of our governance framework will help to put the later discussion into context. For example, in discussing performance measurement, it helps to appreciate that Australia has a federal system of government and that we are different to many other countries, such as New Zealand, that have outputs measurement. The latter deliver much more tangible outputs such as roads, schools and hospitals, where performance measurement is a good deal easier than for policy advising outputs.⁷

– An overview of the Reforms Implemented in Australia

In this section I will cover the key elements of the Australian government reform agenda which gave a greater focus to results, together with greater flexibility for managers to deliver—*let (or make) the managers manage*. This shift in emphasis has required managers to recognise the need to consider how identified results are achieved with complementary attention on financial and budget management. Managers are increasingly searching for an enduring framework that would support longer-term organisational capability development, while allowing more flexibility to make decisions in an environment where the rate of change continues to increase.⁸

As in other countries, we have seen a paradigm shift in public administration to the so-called New Public Management (NPM) which bears directly on our discussion today. Dr Shergold, the head of Australia's Department of the Prime Minister and Cabinet, encapsulated the change as follows:

'The last decade has seen much greater emphasis placed on value-for-money in [government] service provision; explicit focus on outputs and outcomes

rather than input and process; the adoption and adaptation of new information technology; improved client focus; and the introduction of systematic measurement and evaluation of corporate and individual performance’⁹.

More latterly, we have seen development of notions of public-private partnership, including delivery of public services by the private sector.

– Performance Measurement, Monitoring and Reporting

Under this theme, I come to an issue that is at the heart of results based management and one that comprises most of the Australian National Audit Office’s (ANAO’s) performance audit recommendations and suggestions for improvement. This audit attention occurs not just because of the difficulty of implementing a credible outputs and outcomes framework but also because organisations are often loathe to commit to indicators that they believe they may not have full control over and that they think may reflect badly on them if they show a drop in performance at any time, or over time. Furthermore, while it is often difficult to design credible indicators that effectively measure outcomes, it is usually possible to establish second-level indicators (for example, intermediate outcomes) that provide a useful start in linking outputs and outcomes in a meaningful fashion. Nevertheless, performance assessment and/or measurement remains a central issue in New Public Management.

The ANAO recognises the imperfections of most performance indicators and the difficulty of ascribing causality. However, the benefits from developing relevant performance indicators, especially in relation to accountability and transparency, and their positive impact on policies, behaviours and ultimately performance, justify the effort to get them right. Indeed, the ANAO has published two very well received Better Practice Guides on this issue, namely, *Performance Information in Portfolio Budget Statements* (May 2002)¹⁰ and *Better Practice in Annual Performance Reporting* (April 2004).¹¹

– Some On-going Challenges

The Australian public sector has replaced the centrally driven, ‘one size fits all’ approach of the past with one that undertakes business planning, emphasises management flexibility and responsiveness (to governments and to citizens under devolved authority and responsibility from the central agencies), recognises stakeholder involvement, and operates in a more contestable environment. However, accountability must remain the cornerstone of the public sector and, in a more contestable and commercial environment, there are challenges to be overcome and risks to manage in pursuing a results based management approach. In this, my final theme, I will round out the discussion by highlighting some of the key issues associated with the shift towards an outputs and outcomes approach. The challenge is to develop mechanisms, structures and cultures which facilitate this approach and yet maintain the core public sector values. In these respects, the current and continuing emphasis on sound governance, risk management, performance management and reporting, and partnering with the private sector are placing substantial pressures on most public sector entities.

II. Understanding the Australian Environment

The Commonwealth of Australia was established on 1 January 1901. Prior to this, the system of government in Australia had evolved progressively, from the time when the country had been proclaimed as a British possession in 1788, to the point where it comprised a collection of six self-governing British colonies, effectively under the control of the United Kingdom.¹²

Upon Federation, the new Constitution made provision for a national level of government referred to as the Commonwealth, with legislative power exercised through a federal Parliament comprised of a Senate and a House of Representatives. The former six colonies became six states. Each retained its own Parliament, able to exercise legislative powers, except as limited by the new federal Constitution.

The national system of government in Australia is a parliamentary system, where the majority in the House of Representatives determines the executive arm, and where Ministers are Members of Parliament. It is a bicameral system with an elected upper house, the Senate, which is elected under a proportional representational voting system based upon equal numbers of representatives from each state, plus a smaller number of representatives of the mainland territories. The House of Representatives consists of members elected in single-member electorates.

The Federal Parliament

Broadly speaking, the Commonwealth Parliament (comprising the Senate and the House of Representatives) is able to make laws only in relation to a range of specific subjects listed in the Constitution. Major areas include taxation, defence, external affairs, trade, and immigration. Over the years, the power of the Commonwealth has also broadened, through its increasing capacity to raise revenue through taxation (including customs and excise duties). Today, the Commonwealth has extensive capacity to influence business and community affairs notwithstanding the apparent limitations in the Constitution in many areas. It does so in close cooperation with the States, often drawing on its financial capacity.

Beyond the clearly defined areas, Commonwealth legislation may be enacted under the Constitution's external affairs power, if the Commonwealth government considers it to be necessary to give effect to an international agreement to which it is a signatory. Elsewhere, the Commonwealth has legislated by agreement with the States, in areas with Australia-wide application, such as broadcasting, navigation, and food standards.

The Executive

As well as being a federation, Australia is a constitutional monarchy with the Queen of England as the formal Head of State, given our early and long association with Britain. The Governor-General, appointed by the Queen on the advice of the Prime Minister, is the Queen's representative in Australia, and fulfils the traditional role of 'advising, encouraging and warning' in relation to the government of the day. The Governor-General exercises formal executive powers subject to the principles of responsible government and on the advice of Ministers.

Commonwealth Ministers must sit in Parliament, as Senators or members of the House of Representatives, and are appointed by the Governor-General on the recommendation of the Prime Minister. They have responsibility for administering the various Commonwealth Portfolios assigned to each Cabinet Minister. Each portfolio may contain one or more agencies. The make-up of portfolios may change over time as governments review their policy priorities, with agencies moving between portfolios and/or new agencies being created.

The Government is supported basically by the core departments of state, staffed by the Australian Public Service. Exercise of executive powers occurs in a similar manner in the Australian states. In practical terms, the principal decision-making bodies at both Commonwealth and state government levels are the respective federal and state Cabinets, comprising senior Ministers of the governments in office at any given time.

The Judiciary

The federal Constitution provides for the establishment of the High Court of Australia. It is the final court of appeal in Australia on federal matters, and matters dealt with by state Supreme courts. One of the Court's principal functions, however, is to decide disputes about the meaning, or interpretation, of the Constitution. In that context, it exercises ultimate authority in determining whether an Act of the federal Parliament is within the legislative powers of the Commonwealth.

The Commonwealth government is also empowered by the Constitution to create other federal courts, and to vest judicial power in such courts, and in courts of the States. State constitutions and legislation provide for their own judicial systems, headed by the state Supreme Courts.

The States

Subject to a few exceptions, the Constitution does not limit the subjects on which the states may make laws. The most important exceptions are that the states are precluded from imposing duties of customs and excise, and they cannot raise defence forces without the consent of the Commonwealth Parliament. Otherwise, state parliaments may pass laws on a wider range of subjects than the Commonwealth Parliament, on any subject of relevance to the particular State. Hence, primarily state laws regulate important areas such as education, health, roads, and criminal law.

There remain some significant constraints on state legislative powers. A state law is invalid to the extent of any inconsistency with a valid Commonwealth law on the same subject. As a result, a number of matters affecting all Australian citizens, on which the Commonwealth Parliament is able to legislate under the Constitution, are regulated almost entirely by Commonwealth law, for example immigration. However, all States and Territories have their own audit legislation and independent Auditors-General.

Local Government

Functions vary, but typically include local public works and services, town planning, licensing and inspection of community and business activities, and the delivery of certain

community health and welfare services. State governments retain control of all major public works, and of policies of wider significance for all communities in areas such as education and health.

The Wider Public Sector

At both Commonwealth and state levels, large numbers of government organisations have been established outside the core public services to perform a range of functions and provide a variety of services to the community. Typically, organisations of this nature have been public utilities providing transport, electricity and water supply services. Increasingly, however, these types of organisations have been sold by governments, under arrangements providing for varying levels of private ownership.

Other public sector organisations include organisations operating outside the public service framework, that is, public non-commercial broadcasting organisations, government-supported education and research institutions, as well as authorities overseeing the marketing of primary production, and licensing and regulatory arrangements for those requiring professional or skilled trades qualifications.

Raising of Revenue

The Constitution precludes the states from imposing customs and excise duties. During the Second World War, income tax powers, previously exercised by the states, were transferred to the Commonwealth to provide the necessary expanded revenue base to meet wartime and post-war recovery needs. Those taxation arrangements have been maintained to the present time, for economic and political reasons. The effect is that the Commonwealth raises most of the revenue—around 80 percent—although most spending is done by the States. Included in this tax revenue is the relatively new (1999) Goods and Services Tax (GST) which, while raised by the Commonwealth, is passed directly to the State governments using a formulae devised by the Grants Commission.

Inter-governmental Relations

The federal system in Australia involves continuing interaction between the three tiers of government—Commonwealth, state and local. Differing priorities and resources at each level underline the importance of maintaining effective arrangements for consultation and cooperation.

In 1992, the Council of Australian Governments (COAG) was established, and operates under the chairmanship of the Prime Minister, as the peak inter-governmental forum in Australia. It has representation from each level of government and addresses agendas beyond Commonwealth–state finances (now considered mainly at annual meetings of Commonwealth and state government Treasurers). The role of COAG is to initiate, develop and monitor the implementation of policy reforms which are of national significance, and which require cooperative action by Australian governments. These have included reforms of electricity, gas and water supply utilities, consistent with national competition policy, as well as environmental regulation.

Against this backdrop of the Australian system of government I will now move on to my second theme—the reforms in the Australian public sector that bear on results management.

III. Reforms Implemented in Australia

Most countries have been attempting to focus more on results, while allowing a more flexibly managed public service. For many, this has meant seeking new structural approaches, such as purchaser/provider arrangements and the development of new organisational forms. In Australia, the ministerial department—with its clearly defined lines of responsibility, accountability and communication—has, over the years, continued to be used for managing core government administration. There has, however, also been a significant increase in the number of other agencies, including statutory authorities, and a number of successful purchaser/provider arrangements.¹³

The common themes that lie behind the Australian public sector reforms have been described as:

- devolution of authority for the process of administration, but with closer accountability for results;
- increased use of market competition, including quasi-markets within government processes;
- new structures and, indeed, changed government roles for providing services to purchasing and regulatory services;
- accordingly, closer interaction between the public and private sectors;
- increased community responsiveness and involvement, including greater transparency of decision-making; and
- stronger political oversight, with increased community and media pressure on elected Governments.¹⁴

The Genesis of the Australian Public Sector Reforms

Looking at the reform agenda in Australia over the last 20 years or so, a key driver was the introduction, in 1984, of the Financial Management Improvement Program (FMIP) with the objective of improving public service management and accountability. The Program aimed to help managers to focus on ‘*managing for results*’, rather than directing their efforts to inputs and processes, in order to obtain greater resource efficiency and effectiveness. Underpinning FMIP were the principles of management devolution, improved corporate and business planning, increased public accountability and increased emphasis on evaluation of effective performance. The Program was also associated with increased use of user pays and the development of ‘internal markets’. The initiatives introduced with the FMIP remain influential today in the broad framework of continuing reform and renewal. In particular, ‘managing for results’ remains a central focus of the APS.¹⁵

The aim of the reforms in the financial, public service and workplace relations fields were aimed at achieving a performance culture within the public sector and of improving the responsiveness of the public sector to the needs of government and the community. In this section, I propose to outline the more significant reforms that have been

implemented. While the thrust of my presentation is pitched at the federal level, I should make the point that the public sector reforms have largely been taken up at the state and local government levels as well.

Financial Reforms and Accountability – New Legislation

The financial management reforms are based on the principles of greater flexibility, devolution and empowerment with clearer accountability for results. They have also been underpinned by a strong performance monitoring and evaluation regime. The purpose of the financial management reforms has been to: put the Commonwealth public sector on a more business-like footing; foster a more competitive environment; shift the focus from complying with rules to managing for results; plan, budget and report on an accruals, outcomes and outputs basis.¹⁶

Financial management was modernised through three pieces of legislation designed to improve the quality and clarity of understanding of the Commonwealth's financial management framework as well as sharpening accountability and placing emphasises on performance and propriety. These were the *Financial Management and Accountability (FMA) Act 1997*, the *Commonwealth Authorities and Companies (CAC) Act 1997*, and the *Auditor General Act 1997*. It also facilitated the subsequent decisions to replace cash accounting with accrual-based budgeting and output and outcomes reporting.

In addition, the Government's disclosure requirements and principles of sound fiscal management are enshrined in the *Charter of Budget Honesty Act 1998*, which provides a framework for the conduct of government fiscal policy, requiring fiscal policy to be based on principles of sound fiscal management. By facilitating public scrutiny of fiscal policy and performance, it requires government to adhere to principles of sound fiscal management.¹⁷

Budget Reforms of the 1980s and 1990s

Australian budgeting and reporting have also undergone significant changes over the past two decades. Prior to the 1980s, funds were appropriated primarily through annual Appropriation Acts with detailed specification of individual items of expenditure. In 1983 a government White Paper, titled *Reforming the Australian Public Service*,¹⁸ noted the need for a complete overhaul of public sector practice—a shift in management emphasis from 'compliance' to a greater degree of performance control. Amongst the many changes that followed, a key initiative for the purposes of this paper was the introduction of program budgeting, requiring the specification of program objectives and targets, and the certification of all appropriations related to that program objective. This became the basis for the preparation of all portfolio budgets by the government, and for subsequent annual reporting by agencies.¹⁹

*Outcomes / Outputs Framework*²⁰

In 1999, the Commonwealth moved from reporting performance on its programs to an accruals-based outcomes and outputs reporting framework. An integrated framework of accrual budgeting, accounting and reporting, and specifying outcomes and outputs, was first implemented for the 1999–2000 federal Budget. This built on the program budgeting arrangements established in the 1980s. Reporting on programs tended to identify what

had been done and what services had been delivered. Reporting on outcomes identifies what results have been achieved by delivering those services.

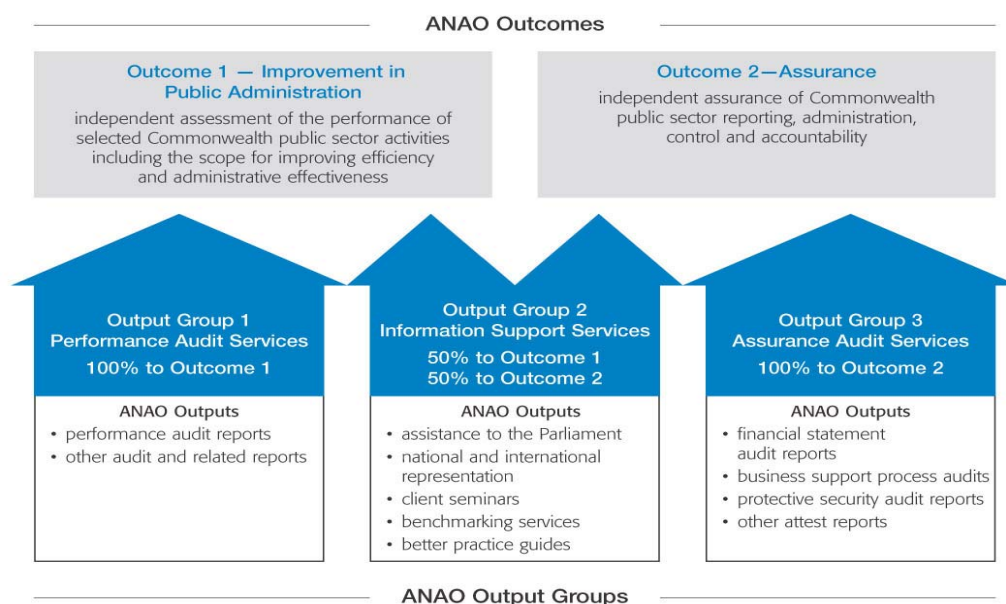
The essential purpose of the outcomes and outputs framework is to answer three questions: what does government want to achieve (these are the outcomes); how does it want to reach those achievements (outputs); and how does it know if it is succeeding (indicators). Outcomes are the key results the Government seeks to achieve, and define for each agency, the purpose of their business. Typically, they are at a higher, more aggregated, level than programs under the former program budgeting system. Outputs are discrete activities or set of activities, a product or a service, performed by an agency as part of achieving its outcomes.

Agencies are now required to specify and cost their outputs against planned outcomes and identify performance indicators and targets. Importantly, appropriations are now made at the outcomes level. Outcomes, and the supporting administered and departmental outputs, therefore form the basis of an agency’s operating budget and external reporting framework.

The framework focuses on the outputs the public sector is producing and their contribution to the outcomes set by government, and is aimed at assisting the tracking of results and progress towards targets. The output component of the framework also facilitates tracking and benchmarking of process, and hence is an important aid to improved efficiency.

The outcomes and outputs framework for the ANAO is illustrated as follows:

FIGURE 1: OUTCOMES AND OUTPUTS FRAMEWORK FOR THE ANAO



SOURCE: ANAO Annual Report 2003-04

The three outputs groups contribute to achieving the ANAO’s outcomes which are met through the objectives and strategies in our four Key Result Areas (KRAs), namely: Our

clients; Our product and services; Our people; and Our business performance. In turn, the ANAO's Scorecard provides an overview of our performance for each of the KRAs.

As Parliament appropriates monies for agency outcomes, the nature and purpose of the outcome must be sufficiently clear in a legal sense to form a valid appropriation. However, unlike outcomes, the formal and detailed specification of agency outputs is not part of the legislative requirements for the Appropriation Bills—their inclusion for Commonwealth budgeting purposes enables closer links to be established between Portfolio Budget Statements (PBS) and agency annual reports. This enables Parliament, Ministers and external stakeholders to scrutinise how appropriated monies will be spent, and to judge how expenditure was used. The PBS is officially a budget related paper and is declared by the Appropriation Bills to be a 'relevant document' to the interpretation of the Bills according to section 15AB of the *Acts Interpretation Act 1901*.

*Financial Management Reforms - Accrual Accounting and Budgeting*²¹

Accrual annual financial reporting was introduced generally in the Australian federal public sector from 1994–95 onwards with audited statements based on Australian Accounting Standards. Accruals-based budgeting was introduced in the 1999–2000 Commonwealth Budget using both the Australian Accounting Standards and the accrual-based Government Finance Statistics Standard of the International Monetary Fund. The consolidated financial statements for the Commonwealth have also been reported on an accrual basis since 1994–95 (initially on a trial and unaudited basis until 1996–97 when audited statements were introduced).

While commercial organisations within government had been reporting on an accrual basis for many years prior to 1994-95, accrual management in the 'core public sector' involved a fundamental change in the way the public service measures business performance financially, with accrual information enabling managers to better:

- identify the assets controlled by the agency and evaluate decisions concerning resource allocation and output management;
- reveal the extent of the liabilities of an agency;
- assess the full costs of producing agency outputs and outcomes;
- make informed judgements about program and agency performance; and
- account more comprehensively to Parliament for the use of appropriated moneys.

Consequently, availability of full accrual information enables the government's budgetary deliberations to be made with the knowledge of the full costs of proposals, facilitating priority setting and trade-offs.

The accrual budgeting framework has changed both how, and what, governments measure for budgeting, accounting and reporting purposes. The former cash measurement reporting focused on cash flow over time. It virtually ignored the effective management of assets and liabilities and could not account for income earned or expenses incurred during the financial year. As a result, governments could not fully assess the financial health of agencies or compare one financial year's performance with the next. However, cash considerations are also integral to management decision-making both for financial management, in terms of short to medium term planning and prudent use of cash

received, as well as for budgeting and its impact, as part of government fiscal policy, for example on the borrowing requirement.

A major benefit of the outcome-output based accrual budgeting framework has been the improvement in the information base underpinning all public sector activity. It provides governments with:

- a clearer picture of the full cost of the goods and services agencies provide, including indirect costs, depreciation and maintenance;
- the information necessary to manage the financial health of agencies; and
- improved communication with stakeholders on priorities and achievements via consistent, streamlined reporting arrangements.

In summary, accrual information is a useful vehicle for: more effective asset and liability management; better assessments about the true and full cost of outputs; facilitating benchmarking comparisons of the unit costs of government outputs and outcomes (particularly in service delivery); and identifying further opportunities for performance improvement. As such, it is a means to an end. Under NPM, the latter might include being able to make comparisons with the private sector for purposes of competition and/or benchmarking.

A focus on evaluation

The numerous reforms and changing roles within the public sector and the trend toward decentralisation, as well as devolution of authority, within the public sector framework led to the government's implementation in 1987 of a public sector wide evaluation strategy. This strategy was to assess the results of programs and would also be used as the basis for analysing funding for future program proposals. The broad objectives of the evaluation strategy were as follows:

- to encourage program managers within portfolios to conduct and use evaluation as a standard and commonplace management tool;
- to provide fundamental information about program performance to aid Cabinet's decision-making and prioritisation, particularly during the annual budget process when there is a large number of competing proposals being considered; and
- to strengthen accountability in a devolved environment by providing formal evidence of program manager's stewardship of program resources.²²

This new strategy encouraged a much more decentralised, methodical approach to performance assessment than undertaken previously. It aimed to provide a suitable framework to assess the outcomes achieved by a program, assistance in decision-making, and a public sector more accountable for its results.

The evaluation strategy consisted of the following three formal requirements:

- each portfolio is required to prepare an annual portfolio evaluation plan (PEP) covering the major evaluations to be conducted over the three years;
- new policy proposals submitted to Cabinet must include arrangements for the evaluation to be conducted if the proposal is accepted; and

- completed reports of evaluation are to be published, thereby permitting wide dissemination of evidence on program performance and permitting scrutiny of the rigour and objectivity of the evaluation.²³

The then Department of Finance had considerable involvement with the strategy. It promoted evaluation extensively in conferences, seminars and workshops; assisted with training programs and gave instruction to managers; monitored the evaluation process; provided staff for management (oversighting) committees, and even for working groups for certain evaluations on request by agencies; and offered advisory assistance in conducting others. Finance attempted to maintain relevance for evaluations by linking their outcomes to the allocation of resources. The approach taken by Finance in assisting departments to conduct their evaluations had great similarity to that utilised in Canada, particularly by the Office of the Comptroller General in overseeing evaluations.

Evaluation and performance auditing experienced significant growth and prominence during this decade, as they became more important with the devolution of authority and decentralisation of the public sector and the development of numerous government administrative reforms. Performance audit developed into a more methodical and structured tool in assessing departmental efficiency and evaluation established itself as a government strategy that would assist performance assessment, decision-making, and provide greater accountability. In my view, the success of evaluation at the Federal level of government was largely due to its full integration into the budget processes. At least where there was a resource commitment, some form of evaluation was necessary to provide justification for virtually all budget bids.

The use of evaluation, as outlined above, experienced its most expansive growth during the late 1980s to the mid 1990s. In July 1990, Cabinet agreed that the results and reports of evaluations included in the annual portfolio evaluation plans should normally be made public. Evaluation activity had been included in annual reports. Moreover, this was later complemented by a Register of Published Evaluation Reports²⁴ compiled in cooperation between Finance and all other portfolios. However, the contribution of evaluation outcomes to government performance appeared to be variable. Early reports stated that, in 1992-93, policy initiatives that had utilised and been influenced by evaluation were experiencing a success rate similar to those initiatives which had not used evaluation.²⁵ In the years following, Finance released a discussion paper on the use of evaluation in the 1994-95 budget suggesting that 'even though evaluation may only be one source of information influencing proposals and Cabinet's deliberations, it is playing an increasingly significant role'.²⁶ These findings seem to indicate that evaluation had a part to play in contributing to government performance but it was not the sole answer to all performance management issues.

In the late 1990s, a new approach to evaluation was developed by Finance in consultation with other APS agencies due to the view that the formal requirements of the Government's evaluation strategy resulted in a predominately process-oriented approach to evaluation. The new approach aimed to allow Secretaries and other heads of agencies to take charge of performance management in their organisation. Finance developed a number of principles for agencies to aim for. These were to be used by agencies to improve their performance management approach incrementally and to enable evaluation to become an integral part of a performance management framework across the APS.²⁷

The most relevant of the Good Practice Principles put forward by Finance, in regard to evaluation, are as follows:

*Ongoing performance monitoring and periodic program evaluation are balanced and used appropriately: program performance is monitored on an ongoing basis and complemented by periodic program evaluation, generally within at least a five year cycle.*²⁸

This further decentralisation of evaluation to agencies as part of their performance management framework, if utilised effectively, can have many positive outcomes for those agencies. The approach allows personnel within the organisation who have a strong working knowledge of the business, the processes, and the culture, to undertake timely evaluation, and not to meet a standardised timeframe set for the whole public service. Ongoing evaluation of business performance, combined with periodic, far reaching reviews of particular programs or issues, will contribute to the use of an effective evaluation framework. It will also enable organisations to gain a more informed strategic view of the organisation's performance and of any changes that need to be made to improve that performance. The use of information obtained from evaluations at all management levels is crucial to ensure that evaluation remains relevant and adds value to the organisation. Importantly, evaluation can be a basis for both identifying and testing performance measures or indicators.

A Changed Approach to the delivery of Government Services

There has been an active microeconomic reform agenda in Australia, since the late 1980s, aimed at improving the productivity and efficiency of the economy. In terms of public sector reform, this took the form of increasing use of market-type mechanisms and of attempting to make state owned monopolies subject to competitive pressures. Such 'privatisation' of the public sector also included sale of government assets, for example, land and buildings and a range of business activities, as well as outsourcing the provision of services, for example, information technology. Increasingly, the latter was used not just for processing extensive data, for example in the areas of taxation and social welfare, but also for actual delivery of government services, latterly through the use of intranets and the internet itself.

An early initiative was the progressive introduction of user charges for a variety of goods and services provided by agencies that had previously been available at no cost to the user. The aim of this charging policy was to make public servants and other users more aware of the cost of public activities, and hopefully removing the overuse of services because they were seen largely as a 'free good'. Flowing on from this was the gradual opening up of choice for agencies in their suppliers.²⁹

Driven by pressures of greater community expectations for increased service quality and efficiency, there were moves to re-examine the role of government. As in many other countries, 'core' (non-commercial) federal agencies were encouraged to concentrate on core functions and to consider alternative methods of delivery for internal common services. Clearly, there are times when governments should fund services, but need not, and perhaps should not, actually deliver them—recognising that some services could be better provided competitively, and that governments could serve public interest better through regulation without ownership. Pragmatically, this has been seen as a mixture of

political philosophy, the public interest and delivery of cost effective services. However, as the UK Prime Minister has said:

*most people don't care who builds and services public projects, so long as they're on cost, on budget and helping to deliver a better NHS [National Health Service] and schools*³⁰

The benefits of this approach for governments are that it allows them to focus on the achievement of outcomes and outputs, rather than simply the efficient use of inputs, as well as encouraging any new suppliers to provide innovative solutions, and secure cost savings. The ongoing challenge, however, is to administer contracts with the private sector effectively to ensure promised value for money is actually delivered.

Competition and Contestability

One of the significant catalysts for the application of market principles to government came from the report of the National Competition Policy Review, *National Competition Policy*, in 1993.³¹ The Commonwealth and State governments accepted the principles outlined in that report and agreed not to restrict competition unless it could be shown that restrictions were in the public interest—the report's recommendations regarding competitive neutrality between government and the business sector (and the structural reform of government monopolies to allow competition) were also accepted.

This policy of competitive neutrality required the removal of state-based impediments to competitive national markets and for government agencies to compete on a 'level playing field' with private sector businesses. Government agencies and trading enterprises were subjected to the same regulatory and taxation regimes as private sector businesses, with the intention that they had no financial advantages over any private sector competitors by virtue of their public ownership³². Competitive neutrality adjustments may need to be made for taxation, debt, regulation, rate of return and costing of shared resources.³³

The *Competition Policy Reform Act 1995* extended the coverage of the *Trade Practices Act* to all markets—to public utilities, the professions, agricultural marketing boards and to much of the health sector, for instance. The natural monopoly elements of Government Business Enterprises (GBEs) and government trading companies were separated out from the regulatory elements and then subjected to competition. For example, state electricity authorities were split, with the State retaining control of the transmission element and the electricity generating part opened to national competition.³⁴

Under this approach, departments (and agencies) were required to identify functions or services that could be contestable and transferred, in whole or part, to the private or non-government sectors. This was based on the argument that for a service delivery to be retained 'in-house' it needs to be clearly demonstrated that public sector adds more value (than say the private sector). Hence, agencies needed to benchmark themselves against all sectors to determine what they do best; what they can improve; what is more effectively delivered by other suppliers; or what should be discontinued.

Nothing was to be excluded. The provision of policy advice by departments, for example, was also contestable. Contestability is less about ownership than competition, or the threat of competition. The prospect of competition is intended to act as a spur to enhance productivity and program effectiveness, and from the

*purchasers' perspective, to provide them with greater choice of quality goods and services.*³⁵

The underlying theory was that, as far as possible, funding of government programs should be separated from the actual delivery of the services involved. Service delivery was to be competitive with suppliers required to tender or otherwise compete for the right to deliver government services. Subject to safeguards to protect service quality, enlisting the knowledge and skills of the private sector and other sectors in delivering government services would help ensure service efficiency.

*Opening the provision of services to competition, being a purchaser rather than a provider of services, and shedding non-core functions, have become global themes.*³⁶

Corporatisation and Privatisation

Departments of State have been central (in Australia) to the administration of government policy-making. However, since the 1920s, statutory authorities and publicly owned companies have been used to undertake a variety of commercial and regulatory functions. Corporatisation is, in simple terms, the creation of a corporate form, either a company under the general companies legislation, or a statutory authority under its own legislation. In either case, an organisation is established to manage an operation, with its own board of directors responsible for making all decisions about the performance of its functions and the delivery of its services.

By way of an example, the first significant statutory body staffed outside the Public Service Act was the establishment of 'the peoples' bank', the Commonwealth Bank of Australia, in 1911 (now fully privatised). The first Australian government company, established in 1920, was the Commonwealth Oil Refineries Ltd in which the federal government joined with what has become British Petroleum to establish a jointly-owned company, to construct and operate Australia's first oil refinery. While, at the time, this was seen as a one-off arrangement to handle an unusual public-private partnership, it can now be viewed as an early example, not only of such a partnership in the Australian context, but also of Australian use of the company form in government.³⁷

Australian governments have corporatised a wide range of government service providers. By the middle of the 1980s there were more than 250 Commonwealth statutory authorities and 18 government business enterprises. The government decided it was time for a reassessment. In 1987, after considerable consultation, a set of policy guidelines articulated a framework for their oversight by government. The guidelines recognised the diversity of these organisations but called for all of them to pay continued attention to 'bottom-line' performance to maximise the benefit of efficient resource allocation. The government of the time asserted a policy of using departments of State where possible, and a commitment to make sparing use of other forms of administration, with proposals to do so to be rigorously examined to guard against unnecessary fragmentation of government administration. But, recognising the size of the corporatised sector of government, the guidelines made clear the importance of their efficiency and accountability to Ministers and to the Parliament.³⁸

Late in 2002, a further review of statutory authorities was commissioned to examine structures for good governance, as well as the relationship between statutory authorities and office holders and portfolio Ministers, Parliament, and the public, including business. The *'Uhrig Review'* proposed a broad template of governance principles for authorities and office holders. Recognising that governance models will vary, depending on the ownership characteristics of the entity, Uhrig developed two templates. A *'Board Template'* is proposed where government takes the decision to delegate full powers to act to a board, or where the Commonwealth itself does not fully own the assets or equity of a statutory authority (that is, there are multiple accountabilities); and an *'Executive Management Template'* for other cases.³⁹

In many recent cases, the introduction of commercialisation of government services has been a first step leading to corporatisation with the opportunity for subsequent privatisation. We have seen governments gradually withdrawing from the provision of some services, and privatised the government agencies involved. This has applied particularly to the corporatised businesses operating in the commercial sphere and some significant Australian examples have been the Commonwealth Bank, Qantas Airlines, defence industries and dockyards, and Telstra (partially privatised)—sold either through listings on the stock exchange or through competitive trade sales.

Australia has had one of the largest privatisation programs in the OECD countries, second by value to the UK. The proceeds of these asset sales are paid into the Commonwealth's consolidated revenue, thus directly benefiting the Australian citizens. The actual benefit is, of course, determined by what the proceeds are used for. To a marked extent, in Australia, the proceeds have been used to reduce government debt, which is now at an historic all time low.

Where government ownership was previously seen as essential, succeeding governments have argued that the public interest can be protected by better regulation (including controls on prices and anti-competitive behaviour) allowing the sale of the asset without risk of the monopoly being abused. The asset or business could be expected to have better management, with less constraint on its capital requirements, and to be more focused on the needs of its customers. The federal government has sold the major city airports on that basis, as have many utilities by state governments.⁴⁰

It has been recognised that there are considerable costs involved in privatisations, for example, the cost of specialist advice; the administrative cost of the tender or stock market offer; and the ongoing costs involved in regulating private monopolies, where they eventuate. But these sales have significantly assisted governments' balance sheets and allowed Australian governments to finance new priorities and programs and/or pay off debt, as I indicated earlier. There are also issues of accountability which I will take up later in discussing the challenges ahead. However, I stress that this presentation is largely about discussing the changes that have occurred in the APS as part of results-based management approaches rather than seeking to make a judgement about the actual results achieved.

Purchaser / Provider Arrangements

In line with trends elsewhere, the Australian Government has increasingly involved other sectors in the delivery of government services and in implementing policy through

establishing contractual arrangements involving a wide range of providers. For some departments, this has become the standard way that many of their services are delivered. As an example, the Department of Family and Community Services (FaCS), one of the largest Commonwealth portfolios, responsible for family and social welfare policies, currently spends A\$730 million on partnership arrangements with 15 000 non-government organisations.⁴¹

By drawing on the capabilities of many providers, FaCS, and other agencies working in similar ways, can encourage greater experimentation and innovation where one solution is unlikely to successfully address the whole problem. As a result, government agencies have been able to concentrate on setting out the standards of service that the contracted provider will deliver and oversighting performance, without directly delivering the service themselves. Two important issues in this respect are whether the agency has the necessary expertise and program acumen to adequately oversight the arrangement and the extent to which the results required are clearly articulated and able to be assessed.

The major partnership administered by the Department of Family and Community Services is with Centrelink (a statutory authority), the Commonwealth's one-stop service delivery agency, which contributes to the social and economic outcomes set by Government by delivering services on behalf of twenty Commonwealth and State client agencies to about 6.3 million customers (citizens), involving expenditure of about \$56 billion. These services are provided under purchaser/provider arrangements known as Business Partnership Agreements (BPAs). The agreement between the Department and Centrelink to provide income support payments is one of the largest in the world.

The agreement recognises the simultaneous independence and interdependence of the two organisations; specifies what services each agency will purchase from Centrelink and at what standard; and sets out standards for measuring whether services provided meet those standards. It incorporates business assurance principles that define levels accuracy in administering client payments and covers ways of making sure the levels are met. The agreement relies on open communication, mutual understanding, and trust, rather than being a legalistic and prescriptive contract.

Dr Rosalky, the previous Secretary of FaCS, observed that an important complement to the Business Partnership Agreement was an assurance framework focusing on management criteria that are critical to the department's success. The assurance framework was considered necessary '*because the establishment of Centrelink had split accountability for one of the government's largest and most sensitive programs*'.⁴² However, the Secretary of FaCS remains accountable under the FMA Act for the program expenditure—Centrelink is therefore required to provide assurance to FaCS that payments, and therefore program outlays, have been made in accordance with the Social Security Legislation.

Public / Private Partnerships (PPPs)

Public/Private Partnerships, broadly speaking, usually involve government engaging the private sector in public service delivery. Their principal features include some (or all) of the following: the delivery of services normally provided by government, the creation of assets through private sector financing and ownership control, government support through, say, contribution of land, capital works, and risk sharing or allocation. There are

a number of different kinds of PPPs. They are an extension to NPM.⁴³ The extent to which these arrangements provide value for money and acceptable public services to citizens, in terms of both quantity and quality, depends on the clear specification of performance criteria and financial analyses developed in the pre-decision process, their medium to long term monitoring, review and evaluation, and the impact of future unanticipated events on agreed risk allocation.

However, in this paper, I will restrict the discussion to the Private Finance Initiative (PFI) and Outsourcing arrangements which are increasingly seen more as ‘partnering’ than ‘arms length’ contractual delivery of goods and/or services. A good example of this is the outsourcing of agencies’ ‘corporate services’ to the private sector. Another is the use of so-called ‘relational contracts’ such as used in the construction of our National Museum.

Private Financing Initiatives⁴⁴

Increasingly, governments in Australia and overseas have been exploring the potential benefits that can flow from private sector involvement with the delivery of government outcomes. Traditionally, infrastructure development has been undertaken by governments in Australia. However, with the trend to privatisation during the 1980s and 90s, the introduction of private financing and operation of infrastructure projects has been a reasonably natural progression. Much has been written about such arrangements which, as with experience elsewhere, have had variable success.

Since 2000, almost all Australian states and territories have developed private financing policies, recognising that, used appropriately, public/private partnerships can offer governments the opportunity to deliver public services more efficiently. The Department of Finance and Administration has published principles for using private financing⁴⁵ and, in addition, established a Private Financing Branch to assist agencies considering private financing proposals. The three core principles for assessing whether private financing should be the preferred procurement method used are as follows:

- Value for money—should be assessed on a whole-of-life and whole-of-government basis. Factors which add value to a private financing proposal include innovation, risk transfer, improved asset use, ownership and management synergies, and improved project management. They also include qualitative criteria, such as the quality of service delivery.
- Transparency—the use of private financing should not diminish the availability of information to Parliament, taxpayers and other stakeholders on the use of government resources.
- Accountability—government agencies continue to be responsible for the delivery of their outputs even through the use of private financing. Agencies are not able to transfer accountability to a private sector organisation, irrespective of the procurement method.

The main attraction of private financing for governments is that it may allow the achievement of better value for money. In particular, it may offer opportunities for efficient risk transfer and access to more innovative solutions and best practice project management. While the Australian Government has yet to conclude a major procurement using private financing, the new joint operational Headquarters Australian Theatre

(HCAST) for Defence has been nominated as a possible private financing initiative. Private financing was seriously considered for an earlier Defence project when, in announcing the tender for the Patrol Boat Project in July 2001, the then Minister for Defence stated that the Government was keen to pursue the project under private financing arrangements, but that the Government must be satisfied it would receive the best outcome for the investment of taxpayer dollars.⁴⁶ However, in announcing the shortlist for the tender in June 2002, the current Minister for Defence stated that:

*After evaluating two possible procurement options, the Government has decided to directly purchase the boats. The use of private financing to deliver the boats and associated through-life support was also considered. However, advice provided to the Government indicated that there was uncertainty about whether the requisite capability could be provided on a value for money basis while also ensuring that the transaction would be classified as an operating lease for accounting purposes.*⁴⁷

There is a perception that private financing can assist governments that are hampered by debt levels or that are keen to avoid debt. In this regard, it has been said that:

*Critics of PPPs [private funding initiatives] claim that governments can use PPPs to understate debt by not recording in the balance sheet the total value of payments payable to the private sector providers, that is, PPP obligations are 'off balance sheet'.*⁴⁸

However, private financing arrangements are recognised in the public sector's balance sheet, which demonstrates that financial structuring is not the primary motivation for their use. In many privately financed projects the ownership and operation of assets will eventually transfer to public hands after an agreed period when it is expected that private investors will have recouped their initial outlay and made a profit on their capital.⁴⁹

Most Australian states and territories have been using private financing to help them deliver public services requiring large investments in infrastructure (for example, the provision of hospitals, schools and arterial roads and water treatment plants). The states' greater scope for use of private financing results from their greater responsibility for services involving substantial infrastructure—the type of service shown to date, in Australia and internationally, to be most amenable to these public/private partnerships.

As well as the advantages, there can be considerable risks associated with private financing, and proposals must be adequately analysed for long-term value for money. One of the main reasons for private financing is that it can transfer risk from the taxpayers to the private sector. However, this is not always the case. The NSW state government, in the late 1990s, was forced to assume the risk of the Sydney Airport Rail Link after the private firm did not meet creditor payments. Private financing involves a long-term commitment, typically lasting 15 to 30 years and contracts need to be augmented by a cooperative relationship between the parties. It requires, therefore, the public sector to invest in contract management and relationship building over the longer-term.

The 'economic rationalists', who have been seen as strong supporters of NPM, have expressed concerns about so-called 'relational contracts' which depend largely on strong communication, trust and confidence between the parties and a willingness to negotiate

outcomes throughout the contract, including appropriate allocation of risk, as opposed to firm, measurable performance requirements that can be pursued legally if required.

Outsourcing and Contracting Out

Another tool used to improve public sector efficiency and effectiveness is outsourcing — an arrangement where a private or non-government sector provider performs an activity previously undertaken by a government agency. Under outsourced arrangements the agency retains overall responsibility and accountability for the activity, function or service irrespective of the service delivery method. Outsourcing may involve market testing through a competitive tendering and contracting (CTC) process.

In association with the introduction of the national competition policy, government agencies reviewed their activities to see how performance tools, such as benchmarking, business process re-engineering, purchaser–provider arrangements and CTC, could be used to improve efficiency and effectiveness. The use of CTC was advocated as a means of delivering more client–focused services while achieving savings and maintaining accountability. Guidance to agencies was issued to provide an overview of the key issues that need to be considered.⁵⁰

The outsourcing of functions that the private sector can undertake more efficiently and cost-effectively (than the public sector) has been a feature of the NPM. Outsourcing advocates point to the opportunities offered in terms of increased flexibility in service delivery; greater focus on outputs and outcomes rather than inputs; the freeing of public sector management to focus on higher priority or ‘core’ activities; encouraging suppliers to provide innovative solutions; and cost savings in providing services.

The Department of Defence was the first government agency to embark on the significant outsourcing of its ‘non-core’ (non-combat related services) activities – this was largely driven by budgetary pressures on defence outlays. The Defence Commercial Support Program has been actively pursued. As well, there has been a range of outsourcing activity across other agencies. For example, the outsourcing of human resource management functions in the Department of Finance and Administration was judged to be positive for the agency’s core business, with the agency winning a worldwide outsourcing achievement award.⁵¹ In addition, an audit of the management of Commonwealth national parks found benefits, both in terms of savings to the Commonwealth, and in increased employment opportunities in some rural and remote communities⁵². Also the ANAO, for many years, has successfully outsourced the audits of Government Business Enterprises and other commercial bodies.

However, outsourcing also brings risks. My Office’s experience has been that a poorly managed outsourcing approach can result in higher costs, wasted resources, impaired performance and considerable public concern. For example, an ANAO audit of the implementation of IT outsourcing across the public sector found that benefits realised by agencies were variable and that costs were well in excess of the amounts budgeted⁵³. A subsequent inquiry into the issues raised by the ANAO noted that:

Priority has been given to executing outsourced contracts without adequate regard to the highly sensitive risk and complex processes

*of transition and the ongoing management of the outsourced business arrangement.*⁵⁴

The inquiry went on to point out the following risk management lessons to be learned, as follows:

- the most significant risk factors were the unwillingness to change and the failure to buy in the appropriate expertise;
- there was a lack of focus on the operational aspects of implementation;
- there was insufficient attention paid to the necessary process of understanding the agencies' business; and
- there was insufficient consultation with key stakeholders.⁵⁵

The Government agreed with the ten recommendations made by the Review, some with qualification.⁵⁶ This included that the responsibility for implementation of the IT Initiative be devolved to agencies in accordance with the culture of performance and accountability incorporated in the relevant financial management legislation with agency heads being held directly accountable for achieving value for money (including savings). Agencies will also be responsible for addressing implementation risks. Audit experience indicates that the agency emphasis has to be on developing a robust analysis of business requirements at the initial stage, which would be the basis of a strong business case for whatever IT strategy is developed. Industry can now deal directly, from the outset, with the people responsible for the function and related outputs and outcomes, as well as with those who will be managing the contract. The inability to have this relationship was the subject of criticism by the industry under the previous arrangements -this was a significant lesson for all future outsourcing arrangements.

The main message coming out of this experience is that savings and other benefits do not flow automatically from outsourcing. Indeed, the outsourcing process, like any other element of the business function, must be well managed to produce required outputs and outcomes and must be suitably transparent to protect public accountability. While it is important to have a sound contract that provides legal protection and remedies for both parties, this should not be the sole basis of the relationship. Unfortunately, this rather narrow focus has been seen as sound contract management. On the other hand, the taxpayer does not want to see results at any cost. We have learned that not only do we need to maintain sufficient knowledge and understanding of our business in order to manage contracts efficiently and effectively, we also need to ensure that we have adequate contract management skills including commercial and legal acumen.

IV Performance Measurement, Monitoring and Reporting

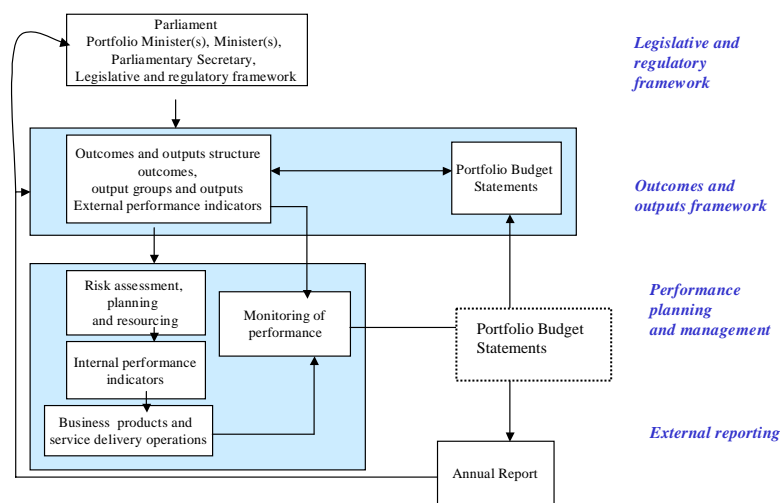
Performance information is a critical tool for public sector management and accountability and the move to an accrual-based outcomes/outputs framework was designed to ensure a focus on:

*resource management with an emphasis on measuring performance, in terms of what is being produced, what is being achieved and what is the cost of individual goods and services...*⁵⁷

Organisations that have reliable performance information for both external requirements and internal management and review have achieved good performance reporting through strategies such as: establishing a robust performance culture based on public sector values; maintaining strong links between reporting, planning and management; and ensuring strong links between external and internal reporting.

Recognising this focus by central government agencies, the ANAO's Better Practice Guides—*Performance Information in Portfolio Budget Statements* and *Better Practice in Annual Reporting*— emphasise the need to integrate performance monitoring with business planning processes, as shown in the following Figure.

FIGURE 2: AGENCY PLANNING, MANAGEMENT AND GOVERNANCE FRAMEWORK



SOURCE : ANAO Better Practice Guide, *Performance Information in Portfolio Budget Statements*, May 2002.

An effective performance reporting and monitoring system is a key aspect of a well-governed agency. Good governance requires that the agency has a structured and regular system of performance monitoring and review. This system should be aligned with the agency's outcomes and outputs framework and generate information that is appropriate for both internal and external performance management needs, and external reporting requirements such as the annual report.

A fundamental starting point, once the key elements of the governance framework have been settled, is in good scorekeeping systems (balanced scorecards or executive snapshots) which firstly translate the organisation's strategies into key operational indicators, and then systematically report on the health of the business, both in terms of operational responsibilities and future positioning initiatives. This provides the feedback loop on the effectiveness of organisational strategies as well as a useful basis for communicating with staff and other stakeholders on how the agency is performing against its targets. Without such reporting, there is a very significant risk of unfortunate surprises and belated, often expensive, recovery action.

Sound performance information can reduce the workload for individuals within an agency by making management information at all levels in the planning hierarchy readily available and applicable to their activities. Appropriate performance information enables

individuals to determine how their activities contribute to agency outputs and, ideally, its outcomes. For this reason, among others, it is essential that performance information is seen as a valuable management tool and that Portfolio Budget Statement (PBS) performance, accountability related information, and general management performance information (including that used in agency or entity annual reports, are part of the same integrated framework).

Boards and/or CEOs are responsible for determining the performance requirements of the organisation as well as reviewing performance information. CAC legislation refers to the requirement to collect and report both financial and non-financial performance information. The public sector is familiar with the requirements for public service obligations that need to be met by particular organisations. However, there are increasingly greater numbers of performance measures that relate to social, as well as environmental, obligations that go well beyond financial indicators. That said, there are also important obligations that go with performance management. The Management Advisory Committee has indicated that:

Performance management is an essential component of a corporate governance framework, allowing boards, Ministers and committees to lead, monitor and respond to how an organisation delivers against its goals, mission and the outcomes required of it by the government.⁵⁸

The following figure reflects a generalised framework that shows not only the relationship with corporate planning and governance, but also with other major elements of the framework, including performance review and feedback. Importantly, an effective approach to performance management enables organisation employees to understand the goals of the organisation and how individual and team outputs contribute to the achievement of organisational objectives and values. Integrating people, planning and performance with organisation objectives develops individual and organisational capability and leads to higher performance.⁵⁹

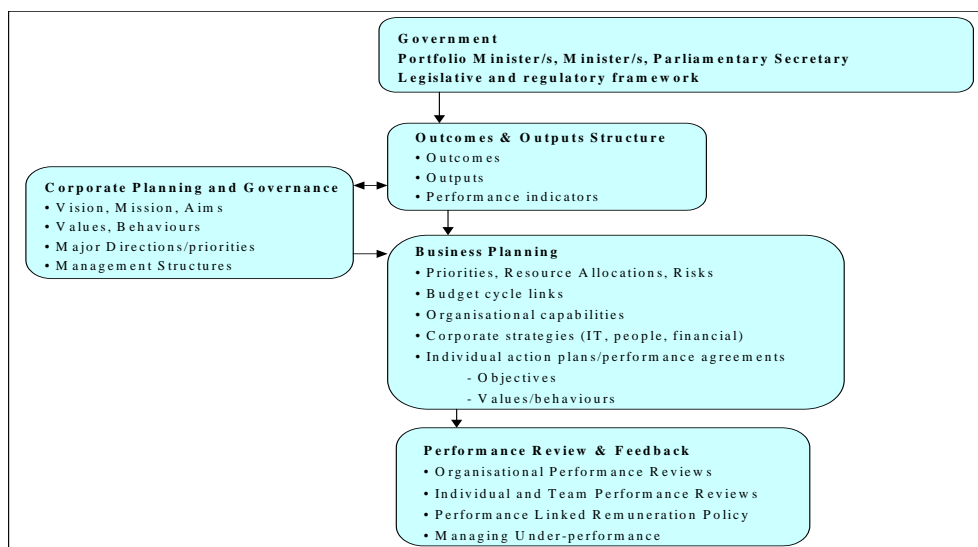


FIGURE 3: A GENERALISED PERFORMANCE MANAGEMENT FRAMEWORK

SOURCE: Management Advisory Committee (MAC), 2001 Performance Management in the Australian Public Service – A Strategic Framework, Canberra, p.16.

The ANAO has identified a number of examples of the objectives of a performance management system that should be directly linked to the organisation's overall goals and/or objectives, as follows:

- clarifying expectations of staff;
- improving communication and feedback;
- identifying training and career development;
- recognising and rewarding performance;
- improving performance (achieving agency outcomes);
- creating a performance culture; and
- aligning individual and organisational goals.⁶⁰

A good performance reporting framework involves clear and precise specification of well-chosen indicators that are drawn from policies and plans for the agency. Such a framework contains a balanced set of measures, addressing all key aspects of agency performance, with accurate and reliable systems, methods and bases for reference or comparison of performance. The key features of a sound framework are summarised below:

— **Specify desired outcomes** (including any intermediate outcomes):

- addressing any shared outcomes and provide information on the agency's contribution; and
- identifying the contributing departmental outputs and administered items (usually program), and assess their contribution to the outcome(s).

— **Identify measurable performance indicators** for effectiveness at the outcome level, and, at the departmental output and administered item program level:

- using valid, accurate and reliable measures and maintain information on methodology and sources;
- establishing links between financial and non-financial performance information and assess the efficiency and cost effectiveness of the agency; and
- using researched and realistic targets, standards and bases for comparison including multi-year targets where necessary.

Another tool that agencies have used to enhance their performance reporting frameworks is the balanced scorecard approach. This approach is concerned with aligning strategy and operations so that they are consistent with the overall purpose of the organisation. The balanced scorecard provides a matrix to check the consistency of performance information from all levels in the organisation within the four (or sometimes five) perspectives of customers, internal processes, innovation and financial performance.

You may be interested in the following observations made by the ANAO in relation to the three critical success factors nominated by the MAC framework (alignment, credibility and integration) shown in Figure 3 above.

The **alignment** of performance management systems with agencies' goals and organisational priorities is variable across the APS and, in many cases, appears to be driven more by the industrial relations processes than the business needs of agencies, and

the outcomes sought by government. Many agencies do not have established systems that relate to, and support, their performance management systems. As well, little attempt has been made by agencies to assess the organisational impact of their performance management system. These are contributing factors in making it difficult for agencies to establish a strong link between the conduct of their performance management systems and improved performance of their organisations. Consequently, performance management cannot, as yet, be regarded as an effective contributor to achieving sound business outcomes in the APS.

Significant issues remain in establishing **credible** performance management systems in the APS. The perception of APS employees, reflected in survey responses obtained as part of the audit, is that there remains a substantial gap between the rhetoric and the reality. While staff generally could be expected to be less sanguine about achievements, there is a degree of uniformity in survey views across agencies with differing performance. Many staff considered that the distribution of performance pay in their agency was unfair; that there was bias and favouritism exhibited in performance reward decisions; that the rewards offered were not worth the extra effort involved; and that there was a lack of clarity for them on what constitutes good performance. Staff also did not see the performance management systems as effective in assisting them to evaluate, or to improve, their own performance. At the very least, the ANAO considers that there is an issue of staff perceptions that needs to be addressed.

Agencies are making progress in the **integration** of the performance management systems with the overall corporate management structure and in providing a clearer link for staff between their work and the goals of the organisation. However, agencies could make significant improvements in recognizing and rewarding those who manage their staff effectively and by identifying and assisting those who do not. Agencies could also improve in the identification of learning and development needs of staff.⁶¹

*Intermediate Outcomes*⁶²

In some cases, agencies experience difficulties establishing outcome statements relating to government policy objectives without using aspirational language. This can be, for example, because objectives can only be achieved in the longer term. In these circumstances, it may be difficult to directly link agency outputs to an outcome statement and develop relevant effectiveness indicators. Agencies can address this problem by developing intermediate outcomes, that is, partial outcomes which are achieved within a shorter time frame. The use of intermediate outcomes enables the better identification of target groups and provides a more appropriate basis for the development of outputs.

An intermediate outcome is not a lower-level outcome statement, nor a substitute for a clear outcome statement. The specification of intermediate outcomes allows clearer understanding of an agency's contribution to important results, in a similar way to explaining the contribution to shared outcomes. Outcome statements should not be overly broad, unless it is explicitly decided that they are to be cross-portfolio in nature. They must also be pitched at a level that is measurable and/or assessable. The specification of intermediate outcomes can further assist in clarifying the impacts arising from the interventions of Australian Government agencies.

An intermediate outcome is a shorter term ‘milestone’ of progress, that is, a point along the ‘cause and effect’ chain from outputs to the desired outcome which is both significant to the agency and for which its contribution to the outcome can be clearly defined and controlled.

Performance Pay and Recognition

Australia has a centralised wage fixing system oversighted by the Australian Industrial Relations Commission (AIRC) for the maintenance of wages and employment conditions for employees on minimum wages. Decisions by the AIRC providing for increases to the minimum wage and conditions are extended to all employees by respective State wage fixing tribunals. In the APS, employment conditions and salaries are set at the individual agency level through the use of certified agreements that are formally certified by the AIRC. This is further cascaded down to individual employees through the use of Australian Workplace Agreements (AWAs).

In recent years APS agencies have, in line with government policy, increasingly emphasised developing and implementing agency, and individually, based pay and conditions as part of their performance management systems to underpin the management reform agenda with its focus on managing for results. The public sector reforms of the 1990s focused particularly on effectiveness, achieving organisational objectives and linking improvements in pay and employment conditions to productivity. Now, all APS agencies should link remuneration to individual performance in one way or another. The two most common approaches to performance-based remuneration are:

- performance-linked advancement—a base salary increase for satisfactory or higher performance, usually in terms of either incremental progression or through a percentage increase; and/or
- performance-linked bonus—usually a one-off bonus payment in recognition of higher than satisfactory performance.

Most remuneration schemes now link salary, rewards or bonuses, skill development and the work environment in their agency Certified Agreements and individual AWAs. Currently, approximately 123,500 federal government employees are covered by certified agreements, and an additional 10,400 are covered by AWAs. The latter usually clearly identify the required performance for salary payment and circumstances in which bonuses and/or other rewards and recognition are provided to the individual concerned.

It is my observation that not all performance based bonus arrangements have been successful. Indeed, the ANAO audit report, quoted above, found that the application of general better practice principles for performance management across APS agencies was quite variable.⁶³ Nevertheless, performance bonuses can be an effective element of a performance management system, but not if they are perceived to be, or are, actually implemented ineffectively. In that respect, the staff perceptions reflected in an ANAO survey were ‘that there is a disconnect between the application of performance management systems and the recognition/reward mechanisms for staff generally.’⁶⁴

Agencies are required to report annually to Parliament on the level of performance payments to employees without infringing on the privacy and confidentiality of individuals. Annual reports must include information on the:

- number of APS employees at each classification level who received performance pay;
- aggregated amount of such performance payments at each classification level;
- average bonus payment and the range of such payments at each classification level; and
- aggregated bonus payment for the agency as a whole.

The information provided in 2002-03 was variable in quality, making it difficult to come to any firm conclusions on performance linked remuneration. Overall, the judgement in 2004 has to be that performance management in the APS can still best be described as 'work in progress'.⁶⁵

Having now covered three of my themes, I will move to the fourth, and highlight some of the challenges that lay ahead in the introduction of a results based management regime.

V Some On-going Challenges

The reform agenda in Australia, which has largely focused on devolution of authority, managing for results and accountability for performance, has led to improved business and corporate planning, better performance management, increased competition, and better management of people as well as finances.⁶⁶ While the more recent reforms have built up an even greater focus on results and responsiveness, rather than largely on management processes, there is a general realisation that how we operate in this environment is also important. The public sector has a particular responsibility for the 'public interest' in upholding the law and ensuring due process, impartially, and with fairness and openness. As a consequence, a realistic balance has to be achieved between conformance and performance. With this shift to results based management there are challenges to be met and resultant risks to be managed. In this final theme, I will canvass some major pressures we are experiencing.

Conformance and Performance—getting the balance right

There are risks in moving from centrally driven prescriptive rules based approach to a '*principles based*' regime where responsibility is largely transferred to individual agencies. For instance, there are important limits to streamlining processes in order to achieve required results if proper accountability is to be maintained. Holding people accountable for performance while also holding them accountable for use of finances and fairness in treatment creates an *accountability dilemma*. In a more privatised public sector, the question is asked what is a reasonable trade-off when, inevitably in a public sector environment, the perceived needs for accountability can impact adversely on economy and efficiency. A similar observation extends to the notion of program effectiveness, particularly where that concept does not apparently embrace accountability concerns, such as transparency, equity of treatment and probity in the use of public resources, including the application of public service values and codes of conduct.

This apparent accountability dilemma has been extensively commented on by, for example, Professor Richard Mulgan of the Australian National University, in many articles and presentations in recent years. The following is indicative:

*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.*⁶⁷

Hence, the ongoing challenge for public sector entities is achieving the ‘right’ balance between conformance and performance at particular points in time and over time. Many consider that this ‘balance’ is simply the outcome of sound risk management with proper identification, prioritisation and treatment of the myriad of risks confronting an organisation or, say, a public-private partnering arrangement. Sound risk management can provide some indication of the degree of trade-off between conformance and performance imperatives. For example, an undue emphasis on compliance breeds a risk-averse culture that inhibits exploitation of emerging opportunities. At the same time, it is apparent that a solid conformance control structure, embedded in risk-management, can largely protect an entity from ‘*corporate governance delinquency*’⁶⁸, and the possible severe impacts of this on individual and organisational performance.

Most would accept that an outcome is largely determined by leadership decisions, values and identified priorities and that this should be understood, and accepted, throughout the organisation as, indeed, sound ethical values and good conduct practices are meant to be. The notion of ‘public interest’ sets the bar quite high in these respects. These issues are central to the culture of governance of an organisation and, consequently, to the achievement of an appropriate balance between conformance and performance, as noted above. The debate tends to be somewhat more substantial and sharper than in the context of governance in the private sector. There is a tendency in the latter sector for conformance issues to be dismissed, or at least downgraded, as a ‘box-ticking exercise’ compared to achieving ‘shareholder value’ or financial results. However, recent corporate law legislation in Australia,⁶⁹ while not as rigorous or demanding as the United States Sarbanes-Oxley Act, has required reconsideration of such a view.

Generally speaking, in the past, the tendency in the public sector has been to focus primarily on ensuring conformance with legal and procedural (including budgetary and financial) requirements rather than single-minded striving for exceptional performance. At one extreme, we have the following observation of Donald Savoie, in a critique of the NPM⁷⁰:

*Public administration operates in a political environment that is always on the lookout for errors and that exhibits an extremely low tolerance for mistakes....In business it does not much matter if you get it wrong ten percent of the time as long as you turn a profit at the end of the year. In government, it does not much matter if you get it right 90 percent of the time because the focus will be on the 10 percent of the time you get it wrong.*⁷¹

This concern has undoubtedly encouraged a risk-averse attitude among public servants, which is said to have been reinforced by Parliamentary expectations and attitudes expressed often in budget estimates examinations. It has also been observed that such an environment has largely focussed bureaucratic attention on administrative process rather than on achieving the stated objectives of governments. It is also said that there needs to be a cultural change in the public sector if public servants are to focus more on achieving

required results and to be accountable for their performance, including effective management, rather than just avoidance, of risks in the future. This imperative applies to both insurable and non-insurable risk as part of an integrated enterprise-wide approach to risk management within the corporate governance framework adopted.

Put another way, the implied view is that the Australian Public Service could have been more effective in constructing robust control structures aimed at assuring achievement of defined outputs and outcomes, as well as being more responsive in providing more efficient client-oriented services. Attention is now being given to addressing government programs and services directly to public sector clients, as citizens, and not the other way around. The notion is to deliver services seamlessly to citizens, including across government levels. And this is being gradually achieved, particularly with the assistance of advances in information and communications technology and software for the operation of intranets and the Internet itself.

This concept of ‘clients as citizens’ demonstrates the particular challenges faced by public sector agencies in negotiating the changing governance environment. While it may be appropriate, even desirable, for citizens to be considered as clients in terms of service delivery, with all of the advantages that private sector models may offer in this regard, it is less desirable in terms of meeting the public sector’s accountability requirements. There is generally a higher standard of accountability demanded of the public sector in relation to its clients – to whom it is ultimately responsible as citizens and taxpayers – than there is in the equivalent relationship between private sector entities and their clients. That is, there is more to client relationships than, say, a marketing imperative. A practical comment on the perceived trade-off has been provided by the former Canadian Auditor General, as follows:

The emphasis should not be solely on greater efficiency or on meeting accountability requirements.⁷²

An appropriate compromise may have to be sought, which may involve re-consideration by the Government and the Parliament as to the appropriate nature and level of accountability of both public and private organisations where there is shared responsibility, and even accountability, for the delivery of public services to the citizen. In this latter respect, I am personally inclined to support the observation of Professor John Uhr, also of the Australian National University, that:

Accountability and responsibility are two parts of a larger whole: whoever is ‘responsible for’ a policy or program is also ‘accountable to’ some authority for their performance within their sphere of responsibility.⁷³

However, it has also been observed that the issue may be more about changing the nature of government than the notion of accountability. Moreover, most governments around the world, at least in western democracies, have chosen not to define the nature of government, other than in broad terms, but have been more inclined to indicate what government does not need to do, particularly under NPM.

In the latter context, the Australian Government recently agreed to a number of recommendations in a report prepared by a prominent businessman, John Uhrig, entitled

Review of Corporate Governance of Statutory Office Holders, as I noted earlier. The recommendations included:

- Ministers issuing Statements of Expectations to Statutory Authorities, and these Authorities responding with Statements of Intent, to be approved by the Minister, to help clarify the roles of the Authorities. These statements should include the values that are pivotal to the Authorities' success;
- reinforcing the role of portfolio departments as the principal source of advice to Ministers;
- ensuring that Governance Boards are only implemented in Statutory Authorities where they can be given the full power to act. In particular, Statutory Authorities of a commercial nature were generally more suited to operating under a board. Statutory Authorities, whose main purpose was to provide services on behalf of the Commonwealth, or were regulatory authorities, were found to be better suited to operating without a board, as it is unlikely that a board in these Authorities would possess the full power to act;
- the establishment of a centrally located group to advise on the appropriateness of governance and legislative structures for Statutory Authorities; and
- ensuring financial frameworks of Statutory Authorities are applied, based on their governance characteristics. Authorities which are legally and financially part of the Commonwealth should apply the *Financial Management and Accountability Act 1997*. Authorities which are legally and financially separate from the Commonwealth, and are best governed by a Board, should apply the *Commonwealth Authorities and Companies Act 1997*.

John Uhrig developed a number of governance principles, accompanied by two governance templates incorporating these principles. The templates consist of a 'board' template and an 'executive management' template, as I also noted earlier. The Government agreed that Ministers are to assess their portfolio bodies against the governance principles and templates recommended in the Uhrig Report. Letters have been forwarded to portfolio secretaries with the Schedule for assessment. The intention is for Ministers to complete assessments by 31 March 2006 and to implement any improvements resulting from assessments, including any legislative changes, by 31 March 2007. Of course, that action will depend on the election outcome.

The Report also drew attention to the current purchaser/provider agreements in place between the Department of Family and Community Services and Centrelink, and the Department of Health and the Health Insurance Commission. However, it could not identify any net benefit to the Commonwealth by these agreements due to the absence of purchasing power by the portfolio Department. The Report noted the considerable resources being used to manage these agreements. More specifically, the purchasing department obtained little leverage from these agreements as:

- the cost of these services was paid for prior to them being delivered;
- there were no alternative providers; and
- the service providers could not identify transaction costs for the services being delivered.

These observations not only have implications for the governance arrangements in relation to the agreements in place, but also for the performance management and accountability of the agencies involved. However, any decisions in these respects are likely to have much more widespread ramifications for governance generally.

In the Australian context, there is no suggestion on the part of the Government or Parliament that accountability expectations will be downgraded; if anything, the reforms suggest that additional authority and flexibility require enhanced accountabilities, even where there may be an additional cost involved. Parliament's confidence in the accountability of public sector organisations is an on-going challenge to our corporate governance frameworks. Nevertheless, in the words of a long time academic reviewer of the changing nature of governance in Australia:

*With the advent of entrepreneurial government and the enterprising state, expressed most obviously in extensive forms of contracting-out, (these) organizational boundaries and identities are less able to contain or limit the accountability issue. Recent changes have stretched the elasticity of our received notions of accountability to the breaking point.*⁷⁴

Accountability is one of the foundation values of the APS. Hence, the greater involvement of the public sector in this more contestable and commercial environment heightens the need for APS systems and behaviour to be grounded in, and consistent with, appropriate accountability mechanisms.⁷⁵ I take the view that accountability of public sector operations depends to a great extent on providing full information on the operations of agencies and other related bodies, including their decision-making. In some situations, because of the nature and complexity of public sector administration in an environment of ongoing reform 'Additional transparency provisions may be a cost that we have to meet to ensure an acceptable level of accountability'.⁷⁶ This leads me to my next issue, the adopting of accrual accounting and budgeting, which I touched upon earlier.

Accrual Accounting and Budgeting—the silver bullet?

The Australian Government's introduction of accrual accounting and budgeting systems was aimed at making the public sector more efficient and its processes more transparent. While many improvements have been achieved by the reforms, some commentators⁷⁷ argue that significant concerns remain, claiming that in order to apply business accrual accounting concepts, government agencies have had to operate as if they were business entities — which they are not. Some have also argued that the accrual accounting systems adopted by government have distorted the nature of accounting measurement, particularly in areas where such measurement is difficult.

While, in my view, the adoption of an accrual based regime in the public sector, overall, has been positive (by enhancing efficiency, effectiveness, accountability and allowing the better costing of programs and services provided by government) the enabling systems must be tailored to suit that environment. In Australia, much of the framework has been completed but there is more work needed in the financial reporting arena (particularly with the harmonisation of accounting standards) and, importantly, to ensure that the accrual budgeting and financial management framework forms part of the normal public sector operating environment (that is, accounting for financial resources, including decision-making, accountability and good governance). It is important that these initiatives are not simply seen as 'an add on' or something that is undertaken just to comply with government requirements. This is a sentiment recently echoed by the Canadian Auditor General:

*Departments and agencies must now improve the use of accrual financial information in their decision making and management and reporting practice; otherwise accrual accounting will be seen as something that is undertaken only to comply with .. directives of government.*⁷⁸

These observations are not meant to leave the impression that accrual accounting should not be the general model of accounting used within the public sector but, rather, to suggest that, while there are particular challenges for the public sector, these are more in the nature of ‘.. the need to modify and augment the practices so that they fit the peculiar circumstances and requirements of particular public sector institutions’.⁷⁹ Clearly, the latter vary from organisations that largely provide only policy advice; those that undertake research; those that are regulatory in nature; those that deliver services without any charging; and those that are largely commercial, even in direct competition with private sector firms.

There are issues with the presentation of public sector financial statements that we still need to resolve. We are also being driven by external influences, such as the standards harmonisation issue, which seems to be taking us down the ‘sector neutral’ conceptual approach to accounting standards. If so, the users of public sector financial statements must be made aware that, unlike private sector, the financial statements prepared by (Australian Government) agencies do not solely reflect agency performance with the operating result being a key performance measure. This interpretation is often supported by a misconception that revenues from appropriations are aligned with the delivery of outputs and outcomes. Mostly they are not, particularly for outcomes that may take some, or many, years to deliver fully. Such observations tend to provide support to those who argue for separate public sector accounting standards. However, this would not be consistent with the increasing sectoral convergence evident in Australia and elsewhere.

There is no overall purchaser/provider model in place within the Australian federal arena where agencies are provided with a level of appropriation funding which is automatically adjusted for changes in either the cost, or quantity, of outputs delivered. Nevertheless, we do have examples of such arrangements, which are akin to a private sector operation. For the most part, the appropriation funding is not a payment for services delivered. Rather, it is a payment in the nature of grant funding, which is not solely dependent upon the delivery of services. In that respect, agency management has a responsibility to meet the expected performance standards which go beyond financial results. There is no ‘matching’ of revenue and expenses required to reflect performance. The operating result reflects no more than the difference between the funding provided to an agency during the year and the amounts expensed. This may be a difficult principle to explain to many readers of the financial statements, a number of whom would be familiar with the traditional forms of private sector reporting where the operating result is a measure of performance and comes about as a result of the matching of revenues and expenses.

Notwithstanding these kinds of issues, the introduction of the outcome/output/accrual framework has lifted the veil, as it were, to show the ‘true cost’ of delivering government programs and has provided a catalyst for change in the public sector, reflected in considerations of cost effectiveness, and ‘value for money’, and fostered a culture based more on performance and accountability for results. Drawing again on the observations of my Canadian counterpart, she makes the case thus:

*..the adoption of accrual accounting in summary financial statements was never intended to be an end in itself, but rather as part of a wider initiative to improve financial management and control in government... Accrual financial information is an integral component of good financial information in government...Accrual financial information helps users appreciate the full financial scope of government – the resources, obligations, financing, costs, and impacts of its activities, including the costs of consuming assets over time...This more complete picture enables legislators to hold the government more accountable for the stewardship of assets, the full cost of its programs, and its ability to meet short and long term financial obligations. Accrual financial information can also help improve decision making within departments. Managers will improve their focus on the stewardship of assets and liabilities under their control, consider the full periodic cost of providing services, and examine how the full range of costs might affect their use of public funds and assets.*⁸⁰

A relatively recent CPA Australia report, *Striking the Balance*, makes the point that one key advantage of accrual based reporting is that it offers the opportunity for governments to improve their management of assets and liabilities. This is critical in the public sector, particularly given that many of the significant assets are of a long-lived infrastructure nature that are vital to providing a foundation for sustainable growth. Under a cash based system, there is a tendency to focus primarily on whether or not to spend money on new assets. Under an accrual based system, the focus also extends to whether to retain, or upgrade, existing assets. That is, the accrual based reporting system focuses decision-makers on the broader range of options available for managing assets.⁸¹ I wish to stress the importance of asset control, noting the view, held by some in the public sector, that: ‘*There are no prizes for managing assets well in the Commonwealth*’.⁸² The ANAO’s Better Practice Guide on asset management⁸³ which, although published in 1996, is still very much the ‘touchstone’ for good asset management practice in the APS context.

To sum up, accrual-based reporting provides useful information about the real level of a government’s liabilities, relating to both debts and other obligations such as employee entitlements and the assets backing those entitlements. Governments cannot hope to govern in a sustainable way unless they are made aware of the liabilities created by the impact of current decisions and the need to maintain public assets in good order.⁸⁴ And talking about sustainability, I consider that so-called triple bottom line (TBL) reporting is a concept that will attract much more public interest in the near future. At a recent seminar, at which there was the Australian launch of the Global Reporting Initiative’s (GRI) Public Sector Supplement for public consultation, I observed that two major Federal Government Departments – Family and Community Services (FaCS) and the Environment and Heritage – were preparing TBL reports for 2003-04 for which the ANAO was undertaking audit verification work.⁸⁵ We had provided verification of the FaCS 2002-03 report, the first for a Federal Government Department.

International Harmonisation of Accounting Standards

While I am on the accounting theme, there is one issue — the harmonisation (or adoption) of international accounting standards — which deserves further comment. In July 2002, Australia decided to work towards implementing the International Financial Reporting Standards (IFRS) for the financial years commencing on or after 1 January

2005⁸⁶. The Financial Reporting Council (FRC) established under the *Australian Securities and Investments Commission Act 2001* is the peak body responsible for the broad oversight of Australia's accounting standard setting process for the private, public and not-for-profit sectors. The FRC supports the Australian Accounting Standards Board (AASB) and the AASB's work towards harmonising its standards with those of the International Accounting Standards Board (IASB).

Following the statement by the FRC, the AASB announced its convergence (now adoption) strategy, which includes the decision to continue to issue one series of sector-neutral Standards applicable to both for-profit and not-for-profit entities, including the public sector⁸⁷. No one pretends that the transition will be easy. Some critics have raised issues about the costs involved, as well as the resulting quality of accounting information and its contribution to good corporate governance.^{88 89}

From a public sector perspective, standards convergence would aid transparency and accountability. In particular, over time, such standards would facilitate an improved comparison between the operations of the public sector and private enterprise for those functions and services that could be provided by either group, whether in partnership or separately. A single set of high quality international auditing standards would also enhance the reputation and credibility of the auditing profession and help restore public confidence in it. This has also been of major concern to the International Federation of Accountants (IFAC), which commissioned a recently released report entitled 'Rebuilding Public Confidence in Financial Reporting,'⁹⁰ outlining initiatives being taken to better meet public interest concerns.

Professional bodies and other financial commentators have stressed that there is no room for complacency (in Australia) in meeting the timetable for the adoption of international accounting standards by 1 January 2005. A reasonably recent survey of public and private Australian organisations showed that less than half of the respondents had identified the main changes that will affect their organization.⁹¹ This is also a major issue for the public sector. Many agencies have made a start by reflecting the broad implications of the adoption of the IFRSs in last year's financial statements. Hopefully, all are now determining their opening balances for this year on that basis. It will be a significant challenge for many agencies to meet these tight timeframes, and will depend, in large part, on the extent to which agency audit committees, and their financial management advisers, have come to terms with the implications of the revised standards for corporate governance and reporting.

The focus on the adoption of international financial reporting standards reflects the first strategic direction issued by the Financial Reporting Council (FRC). However, there was also a second direction issued in November 2002 relating specifically to public sector reporting, namely:

*With regard to public sector reporting, the Board should pursue as an urgent priority the harmonisation of Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP) reporting. The objective should be to achieve an Australian accounting standard for a single set of Government reports which are auditable, comparable between jurisdictions, and in which the outcome statements are directly comparable with the relevant budget statements.*⁹²

As I have already mentioned, Australian public sector jurisdictions currently report outcomes using both the accounting framework developed by the International Monetary Fund for the production of national and government accounts (that is, Government Finance Statistics - GFS) and generally accepted accounting principles (GAAP) frameworks. The GFS reporting framework is a sophisticated statistical system, consistent with international statistical standards⁹³ and guidance published by the International Monetary Fund. This framework provides comprehensive statistical information and assessments for economic analysis of the public sector, and reflects the needs of fiscal analysts and other users interested in such analysis. This approach contrasts with Australian GAAP, which aims to provide users with sufficient information to evaluate the entity's financial performance and position, and its use of resources.

The current dual reporting regime contributes to a proliferation of aggregated measures in budget documents and other outcome reporting documents. This different presentation of financial information in turn leads users (who are many and varied) to find it complex and difficult to follow. Additionally, this dual reporting means that budgets are not always directly comparable across jurisdictions which impacts on the usefulness and relevance of the documents.⁹⁴ In addition to conceptual inconsistencies, there are a number of technical differences between GFS and Australian GAAP relating to timing and so-called 'permanent' differences⁹⁵, which lead to dissimilar net results and/or balance sheet presentation and outcomes.

Brett Kaufmann,⁹⁶ from the Australian Department of Finance and Administration, makes two important points, namely:

- *Different business models drive the two sectors* - the budget is a key document in the public sector because taxpayers and the markets want to know what governments intend to do with their tax dollars and this allocation of these scarce resources is set out in the budget. This is a wealth redistribution business model as opposed to the wealth creation business model of the private sector with its focus on outcome statements in the form of general purpose financial reports (GPFs).
- *Appropriate measures* - the performance of private sector entities is assessed through measures such as profit and loss, equity, earnings per share, and return on assets which are consistent with the wealth creation business model but not with the wealth creation model of the public sector. Where as the public sector exist to deliver goods and services to the community either directly by government agencies, through outsourcing to the private sector or through funding arrangements with the other two tiers of government.

The ASB has an ambitious GAAP/GFS conversion timetable⁹⁷, with an exposure draft scheduled for release in March 2005 for application of the new standard in 2005-2006. The AASB's GAAP/GFS convergence project is being undertaken in three phases:

Phase 1: whole of government (including sectors);

Phase 2: entities within General Government Sector (GGS) (including government departments); and

Phase 3: local governments and other public sector entities (including universities and government business enterprises).

The results will be implemented having regard to international activities, in particular, the work being undertaken and to be undertaken by the IASB, IFAC-PSC, IMF and OECD. The outcome of this project is to create an *‘Australian accounting standard for a single set of Government reports which are auditable, comparable between jurisdictions, and in which the outcome statements are directly comparable with the relevant budget statements.’*⁹⁸

Consequently, any changes to be taken in response to this new standard may well coincide with preparations being made for the implementation of harmonised accounting standards for reporting periods starting on, or after, 1 January 2005. This will accentuate the implementation complexity, not just in determining the implications for an organisation and for its financial reporting, but also for any systems changes that need to be made to reflect the impact of the new standards framework.

Despite all of the efforts being expended on this project, the question remains as to whether a harmonised framework can lead to better information and a better result for the public sector? Australian GAAP and GFS currently give different information to different audiences for different purposes. To harmonise these two incompatible frameworks might lead to compromises being made which undermine the quality of the very information being sought. One issue of concern raised is whether General Government Sector reporting will remain credible, transparent, understandable and comparable⁹⁹. Nevertheless, there are distinct advantages of transparency and better understanding of financial outcomes, if successful harmonisation can be achieved.

I referred earlier to ANAO verification of departmental reports on sustainability or triple bottom line. Verifying TBL information is not an easy task. Some of the difficulties for auditors when verifying TBL information include:

- lack of mandated standards for the preparation and verification of this information;
- lack of available information to assess performance;
- clarity of information presented;
- materiality decisions;
- audit issues relating to publication of the TBL report itself; and
- specialist skills required to verify TBL information.

The current accounting and auditing standards frameworks do not include specific guidance on preparing, or verification of, TBL reports. In June last, the Auditing and Assurance Standards Board issued Australian Auditing Standard AUS 110 *“Assurance Engagements other than Audits or Reviews of Historical Financial Information”*. This standard establishes basic principles and standards to be applied by auditors when completing work such as verification of TBL reports.

During the verification of the FaCS TBL report, in late 2003, the GRI Guidelines were the main source of auditing criteria. This was supplemented by the Standards Australia draft standard *General Guidelines on the Verification, Validation and Assurance of Environmental and Sustainability Reports (DR 03422)*. This standard was issued close to the end of the verification procedures.

The GRI Guidelines include key performance indicators for environmental, economic and social performance, and a framework within which to set the key performance indicators. A true ‘sustainability report’ requires such measures. The GRI issued revised Guidelines in June 2002 and intends updating them again in 2005. The reporting criteria most frequently mentioned in assurance reports are the GRI Guidelines. However, more than half of such reports cite no reporting criteria.

A recent study in the United Kingdom indicated that there is a clear need for integrating corporate social responsibility into the International Organization for Standardization (ISO) management systems¹⁰⁰. Such an approach would lead to a more standardised global approach to this type of reporting covering key elements such as:

- compliance with all rules and regulations of the jurisdiction in question and relevant international norms pertaining to the environmental, consumer, fair labour standards, human rights, and health and safety protection, as agreed upon through a meaningful stakeholder engagement process;
- processes for meaningful stakeholder engagement;
- development, implementation and communication of corporate responsibility and corporate ethics policies, including those pertaining to anti-bribery and corruption;
- training for socially responsible governance;
- relations with communities, philanthropy, outreach and involvement; and
- measurement and regular reporting to the full range of stakeholders and the general public.¹⁰¹

A decision to develop a Standard for Social Responsibility at an ISO Technical Management Board meeting was taken in Stockholm in June last.¹⁰² The ISO’s Advisory Group on Social Responsibility recommended that there was a need for a guidance document, and not for a specification document intended for conformity assessment.¹⁰³ This seemed to be a pragmatic position as there had been some earlier support for third-party certification. The Vice-President, quoted above, opined that:

*A standard that includes Certification today would, in my opinion, defeat it from the outset.*¹⁰⁴

The Whole-of-Government Approach

With citizens demanding that the delivery of government programs and services should be more coordinated and seamless, governments in Australia, and elsewhere, are searching for new ways to find solutions to problems that cross governments, cross jurisdictions and cross portfolios. Australia has achieved some notable successes, for example, in managing the 2000 Olympics in Sydney—involving many agencies at federal, state and local government levels—and the tremendous cross-government and cross-agency efforts to quell the bush fires in eastern Australia in 2002 and 2003.¹⁰⁵

The challenge is to develop mechanisms, structures and cultures, which facilitate whole-of-government approaches that become a characteristic of the way governments work in Australia’s accountable, federal democracy—not just in times of crisis. To meet this challenge, public sector leaders will need to implement one of their key responsibilities, to promote cooperation with other agencies, by managing across new types of structures.

The particular challenge will be the establishment of appropriate governance arrangements for these collaborative or whole-of-government initiatives.

A very recent Australian Government report – *Connecting Government: Whole of Government Responses to Australia’s Priority Challenges*¹⁰⁶ - defines whole-of-government in the Australian context as:

*Whole of government denotes public service agencies working across portfolio boundaries to achieve a shared goal and an integrated government response to particular issues. Approaches can be formal or informal. They can focus on policy development, program management and service delivery.*¹⁰⁷

The notion of whole-of-government or ‘joined-up government’ is a key focus of attention internationally. In Australia the federal and state governments are searching for solutions aimed at better management of whole-of-government priorities. In managing whole-of-government initiatives, Australia, like most countries, is seeking an effective balance between centrally driven imperatives and local autonomy. There is a risk that the very devolution that has helped to improve the performance of the public service over the current period might exacerbate the problems of coordination, just when community expectation of seamless services being provided by governments generally through whole-of-government coordination is increasing. As noted earlier, service delivery is now being provided through the internet.

The ANAO is tackling the challenges arising from the use of technology by Australian Government agencies in the delivery of programs and services in a number of ways. We are addressing agencies’ need for practical and informative guidance through the production of technology-focused Better Practice Guides (BPGs). The ANAO is also including technology related audits in its annual work program. The findings and recommendations arising from these audits are widely applicable throughout the public sector.

Over recent years, the ANAO has released BPGs relating to Internet service delivery¹⁰⁸ and business continuity management.¹⁰⁹ The ANAO has subsequently undertaken audits against key principles outlined in these guides. In particular, the important area of Internet service delivery has received considerable attention.

An audit of Internet security was undertaken in 2000–01¹¹⁰. While audit fieldwork preceded the release of the BPG, it was undertaken in conjunction with the development of the guide. This audit concluded that the level of Internet security for the majority of websites reviewed by the audit was insufficient, given the threat environment and vulnerabilities identified within those sites. This audit also provides a useful example of an approach that the ANAO is increasingly using in complex, technology related audits, that is, to engage specialists to assist ANAO auditors address specific criteria within the audit. On this occasion, the ANAO conducted the audit with the assistance of the Defence Signals Directorate (DSD) to contribute technical knowledge and to test the security of selected Internet sites.

In February this year, the ANAO tabled the second of its Internet-related audits¹¹¹ based on criteria established in the BPG. This audit focused on better practice principles

established in the guide under Part 5: *Monitoring and Evaluating Internet-Delivered Government Programs and Services*. This audit also capitalised on external expertise, in cooperation with a consultancy firm with specific expertise in monitoring and evaluation engaged to manage and conduct the audit. The audit concluded that audited agencies did not have specific agency-level policies, including clear responsibilities for both the monitoring and evaluation of websites, portals and Internet-delivered services.

A third audit, focussing on the efficiency and effectiveness of Internet-delivered services, has commenced with fieldwork currently being undertaken. The ANAO also recently tabled an audit that focused on the Department of Family and Community Services (FaCS) management of Internet portals.¹¹² Again, there were lessons to be learnt from observed deficiencies.

A particular conundrum is being confronted in ‘joined-up’, collaborative, or whole-of-government approaches to public administration between privacy considerations on the one hand, and efficiency (including cost) of obtaining, particularly personal, information on the other. The Senate has taken a particular interest in the notion of ‘data sharing’ or ‘data matching’ and the notion of personal privacy. The Privacy Commissioner has published extensive guidance which should be regularly consulted in this respect.¹¹³

All Australian Government agencies are subject to the *Privacy Act 1998*, which contains a number of Information Privacy Principles (IPPs) that provide for the security and storage of personal information. The IPPs state that if a record is to be given to a service provider, the record-keeper (i.e. the agency) must do everything reasonably within its power to prevent unauthorised use or disclosure of information contained in the record.

Moreover, there are also risks to accountability in joined-up, or integrated, projects that inevitably involve more than one participating agency and frequently involve organisations, say in the private sector, that may not be directly accountable to government and not subject to parliamentary scrutiny. While departments and agencies will have their normal reporting responsibilities to Ministers, they will also need to ensure that their partners can live up to these reporting standards. Clearly defined accountability arrangements are important for successful whole of government initiatives. A particular challenge is to improve cross-agency coordination and collaboration while maintaining vertical accountability.¹¹⁴ The new accountabilities and incentives encompass shared outcomes and reporting, performance measures engaging collegiate behaviour, and reward and recognition for horizontal management.¹¹⁵

The introduction of accrual budgeting framework in 1999 been progressively refined and work has been undertaken to examine the scope for the framework to accommodate whole of government measures. Currently, outcomes are still determined by agencies and individual ministers, and outcomes have not been disaggregated to the level of specific policy priorities as represented by individual funding initiatives. The ANAO has suggested that broad (or shared) outcomes are useful as they can involve contributions from a number of areas from within, and outside, an agency. The key challenge is to identify the agency’s area of influence and acknowledge this in performance measurement and annual reporting,¹¹⁶ On the input side, accrual information is necessary to ensure these contributions are accurately measured and reflected in results.

However, like most reforming governments we, in Australia, may not yet have achieved a truly successful balance between centrally driven reform and devolved 'front line' service delivery—this was recognised by a UK parliamentary committee which concluded that:

*This is not least because of the lack of proper integration between the building of an organisation's capacity through what we call 'the performance culture' and tracking quantitative achievement in the public services through the 'measurement culture'. The result has been tension between those charged with centralised responsibility and those who are responsible for dispersed delivery of public services.*¹¹⁷

Advice to Government and Ministers—from monopoly to competition

Finally, let me now turn to an issue that is 'alive and well' in the Australian environment—the growth in the contestability of advice to Ministers and governments. In the past there was a single channel of advice to a Minister and that was through the department (and departmental Secretary). However, as one Minister in the Australian Parliament has observed:

*There has been a transition over 25 years from the final days of an imperial public service to a public service which has focussed on policy advice and service contracts, as an enterprise operating in a competitive environment where governments have alternative sources of advice and service provision....it was an institutional struggle between the democratically elected governments and the public service for control over the public service. And in that struggle the elected governments have won.*¹¹⁸

At the core, for the public sector, is the increase in the competition to be heard, a competition that has removed the monopoly of the APS as policy advisers, and challenged the notion that its expertise should be either given precedence or even be listened to at all.¹¹⁹ In the Australian context, the most frequent target was the Treasury, which built up a reputation for providing the 'right' advice and no alternatives.¹²⁰

The competition for advice has moved on from the situation where information was scarce, it was held within the APS and often no one else had access to it. Ministers had few staff (mainly to run their offices) with policy-making being a dialogue between the Minister and the department, with most of the advantage lying with the bureaucracy. Now expertise is wide spread, alternatives abound, Ministers have access to a range of advice and support from their ministerial staff, and therefore the single official view carries less weight.¹²¹ Dr Shergold, the most senior Australian public servant, as Departmental Head of Prime Minister and Cabinet, makes the point:

*Let me make it clear that I extol the fact that public service policy is increasingly contested. I welcome it intellectually: our perspectives and strategies benefit from challenge. I welcome it professionally, as a public servant.*¹²²

and

*I welcome the fact that the public policy development in government now has to compete for the ear of the Minister with alternative views presented from a variety of perspectives. I applaud the necessity to test the delivery of government services in the market...without losing sight of the fact that we are responsible to citizens not just customers.*¹²³

The Ministerial advisers in Australia have become important participants in the policy process, playing a range of policy roles and in some commentators' eyes they 'are unique creatures. They are the only people on the government's payroll not accountable to Parliament'¹²⁴ However, Dr Shergold sees public servants and ministerial advisers having quite distinctive roles. Public servants are non-partisan, having an important role at the heart of public administration, preserving the corporate memory that is placed at the disposal of successive governments, and maintaining, through Ministers, lines of public accountability. By contrast, political advisers are necessarily, and appropriately, partisan with their fortunes tied to the political career of their Minister or government.¹²⁵

In a results driven environment it is difficult to measure the effectiveness of policy advice provided by the bureaucracy, especially when there is competing 'noise' that interrupts the message—one basic element remains, in the national interest, policy must be well considered and well informed. Dr Shergold believes that the changes, born of contest and competition, have had the impact of renewing and revitalising the public services—the challenge has energised public sector performance in a world where public servants have to capture the imagination of government with innovative and creative ideas. Its strength has been, and remains: strong lines of accountability; honesty and integrity; and a willingness to serve responsively successive governments of diverse political persuasions in an impartial and non-partisan manner.¹²⁶

VI Concluding Comments

Let me now try to draw some threads together that have run throughout my talk today. Australia, along with a number of other countries, has been at the forefront of public sector reform. We have embraced concepts popularly known as New Public Management. These include a greater emphasis on results and delivering government services through the private sector, with managers now being held personally responsible for results, not just simply for complying with legislation and other rules. The reforms in the Australian public sector have emphasised the importance of a performance culture supported by clear lines of responsibility, with performance information, assessment and reporting being critical tools for monitoring and improving performance.

Most would agree there is a role for a structured and well-directed program of evaluation in addition to performance audit to meet the Parliament's need for a comprehensive and effective accountability framework within which to assess the performance of government agencies. It is of paramount importance that agencies, employing suitably skilled personnel, undertake proper evaluation of programs (outcomes and outputs), based on relevant and credible performance measures and reporting frameworks (with suitable frequency and detail) to address the intensifying focus on government accountability by citizens and the Parliament. Audit will be most effective where it complements such activity and, indeed, may often review it as a meta-evaluation. Hopefully, the latter will be viewed in a positive manner, first as a means of assurance and second as a means of improvement, as necessary.

The need for evaluation, in both the public and private sectors, has taken on even greater significance in addressing issues of corporate governance. As outlined in a 1997 ANAO report:

*... program evaluation is a key component of corporate governance. Along with performance indicators and other measures, evaluation assists in providing credible accountability information to assure the Chief Executive Officer (CEO) on internal control and management of the organisation, the planning and review of its operation and progress, and ensures consultation and constructive feedback on agencies' program activities.*¹²⁷

Managing for outcomes with its emphasis on reporting on results may be seen as drawing public servants into being seen to be responsible and accountable for achieving a government's political agenda. An Australian commentator recently made the observation that:

*agencies just hate the idea that they should be in any sense held responsible for the broader outcomes like the extent of industry development agencies should not be held responsible for the overall state of, say, the communications industry, or in say Treasury's case, the state of the Australian economy. But they have to be able to demonstrate that their advice made some sort of difference. They have to be able to demonstrate that there is a link between their advice and what actually happened.*¹²⁸

I referred at the beginning of my talk to the themes coming out of the *Coombs Report* which included an increased responsiveness to the elected government. Kevin Andrews, an Australian member of Parliament, sees responsiveness as perfectly compatible with objective and fearless advice—he observes: '*Responsiveness in the Westminster tradition means being flexible and adaptable in implementing the policy of the elected government of the day without reducing the ability to have robust input into policy*'.¹²⁹

The balance between responsiveness to the elected government and maintaining an apolitical, impartial professional service is an area of possible tension but not a new one in western democracies. Articulating a definition of performance with ethical behaviour and accountability as key elements is central to the Australian approach in fostering an appropriate culture for the public sector. That imperative is reflected in our focus on a definition of performance which seeks a balance between 'getting the job done' efficiently and effectively, and behaving ethically and justly in the public interest. The shift in focus to results is balanced by our enduring public sector values and principles which have been continually reinforced in recent years. Managing for outcomes/results involves both accountability and trust – achieving the appropriate balance between conformance and performance is a key issue in pursuing results more vigorously.

Unfortunately, in my view, the debate about the 'right' focus on conformance and/or performance has detracted from proper consideration of appropriate corporate governance arrangements which reinforce many of the initiatives that have been taken in public sector reform over the years. For instance, the appropriate exercise of risk management, in accordance with the Australian and New Zealand risk standard 4360:2004, will not only provide an informed basis for achieving an appropriate balance between control and performance in the circumstances of each agency, it will also assist

in responding to the increasing demands for proper internal control, particularly over fraud, involving systems, data and reporting. In a recent study on Enterprise Governance, it was noted that the recognition of enterprise risk management which provides a basis for a performance-driven approach has given rise to the concept of reconciliation of both conformance and performance.¹³⁰

Clearly, results management has a much wider connotation than simply financial outcomes or even program outcomes. The concept also embraces issues about how those outcomes are achieved, which comes back to concerns about values and ethics, leadership – or tone at the top, and relationships with all stakeholders, not the least being agency employees. And that is why we now see considerable emphases on performance management as opposed to just our individual and collective performance under new public management.

E-Government presents both an opportunity and a hurdle for results management, particularly in a whole-of-government context. It was recently noted that ‘as e-government initiatives move beyond tightly-focused transactions, they confront issues of integration, information sharing, ethics, access, equity and governance’.¹³¹ Leadership and management are key to success. Sustained involvement is essential, as well as knowledge and understanding of all who are involved. The same author opined that:

*E-government rests on elusive relationships. Information technology provides the infrastructure on which imaginative redesign of government services and operations depends. However, the search for effective management of information technology systems with cross-organisational capability demands staying power.....The large information technology projects on which e-government depends strain to the limit the public sector's ability to conceptualise the necessary organisational and information technology requirements.....Citizens want to transcend customer relationships.*¹³²

While I have endeavoured to highlight the various major federal public sector reforms over the last 20 years or so, it is evident that these reforms and the adoption of a results base regime has narrowed the differences in governing and managing in both the public and private sectors. However, we will do well to bear in mind the reality of the political dimension, and community pressures in the public sector environment, with all the consequent complexity and uncertainty involved. To conclude, I will leave you with some thoughts of our Public Service Commissioner, whom I referred to earlier:

*Amongst the lessons learnt have been the importance of risk management that comes with devolution, the need for a clearer values framework to support integrity in the absence of central rules, and the importance of people management and leadership. We have also learnt that there is a range of different structures that can be used to deliver quality services efficiently, and that consumer or citizen focus requires a lot of effort.*¹³³

I trust that my talk has provided some interesting insights into results management, albeit from an Australian perspective.

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