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**Whither Accountability in a  
Changing Public Sector  
Environment**

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## WHITHER ACCOUNTABILITY IN A CHANGING PUBLIC SECTOR ENVIRONMENT?

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### I. Background

The Australian Public Service (APS) is facing a number of significant challenges in meeting the requirements of a Government with a more private sector oriented approach including the actual provision (delivery) of public services. This connotes a somewhat different public service, although arguably one that had been steadily evolving in just such a way over the last decade or so. Regardless of any differences of view in this latter respect, it can be asserted that recent governments have been focussing more on achieving a better performing public sector. This has not only involved adapting or adopting private sector methods and techniques but also direct participation by that sector in providing public services, even so-called and traditionally regarded core services such as policy advice and determination of entitlements. As with many other Western democracies, governments have been put under greater pressure to be more accountable and less costly to taxpayers.

It is therefore highly relevant to be discussing working towards a best practice public service at this time. In moving towards such a goal we will be doing so in an environment of continual change but one which requires us to maintain and enhance our accountability, improve our performance, find new and better ways of delivering public services while meeting ethical and professional standards. It is against this background that I want to discuss the role of the ANAO and the various factors which will influence our future direction as one agency contributing to the achievement of a best practice public service. Therefore the emphasis I will give is more on the control than on the broader management issues, although I will comment on some of the latter as part of the changing environment.

Any discussion of the role of the Auditor-General, and consequently that of the ANAO, must begin with a recognition of the two themes which underpin our operations. These are - independence and accountability. In the first instance, it is important to consider the framework which creates the Auditor-General's role as a whole, particularly the audit mandate and the interdependence of the audit office and the Auditor-General. This involves an assessment of the likely impact of the new audit and financial management legislative arrangements. As well, our role and approach are being affected by the changing nature of the APS, including the introduction

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of new ways of providing public services, such as through direct competition, contracting out, the separation of the purchaser of services from the provider, and by the more contractually based and diverse accountability framework. More importantly, the latter framework is largely still to be determined as part of the evolving - and some would say uncertain - public sector environment.

The introduction of new ways of delivering public services does not obviate or limit the need for accountability because of, for example, the market discipline induced by competition. To the contrary, less direct relationships and greater decision-making flexibility strengthen that need. This may be frustrating to those expecting a 'purely private sector' approach with little or no public sector disciplines or constraints, such as might be applied by Parliament and its Committees. We are being asked to be responsible at all levels of the organisation, including at the individual level, for the outcomes identified by the Government. To do this effectively requires all of us, for example, to undertake an analysis of the risks involved for required results and the efficiency of the processes by which we achieve these outcomes, and to manage on that basis, including the development and use of sound performance information. These imperatives can be handled most effectively in an interrelated corporate governance framework which addresses both our relations with our stakeholders and the accountability/performance requirements of the public sector.

The ANAO must, along with other public sector organisations, change to meet the demands of our primary client, the Parliament, and the needs of those agencies and entities we audit. The ANAO is looking at how we best fit into the new environment; what new products and services are necessary; how we maintain the relevance of our current products; and in what ways these should be better tailored to meet the needs of our clients. We must respond in a positive way to the changing environment if we are to provide added value to public administration in accordance with our corporate vision. Such value added encompasses not only more cost effective and productive outcomes but also the greater certainty all stakeholders should have that proper responsibility, exercised in a fair and ethical fashion, is being taken to ensure that result.

I intend to canvass the issues outlined above in the time available particularly in the context of the various elements on which overall accountability is based. I will conclude with a discussion of the ways in which we are endeavouring to get our own house in order to demonstrate accountability for our performance.

## **II. Supporting The Developing Accountability Framework**

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## The Legislative Foundation

The 1980s was considered to be the decade of reform for the APS. This process has continued into the current decade. This reform environment and the current Government's approach are being reflected in a range of legislation already before the Parliament or intended to be introduced. It will encompass the whole resources management accountability of the Government and the bureaucracy to the Parliament. As such, the legislation will influence not only the operations of the ANAO but also of the entire Commonwealth public sector. We are witnessing a change in the Westminster style of governance which is impacting markedly on the ways in which public sector organisations deal with their various stakeholders and manage themselves. The latter can be broadly described as corporate governance. This section is concerned with developments at both levels of governance.

The Audit Act 1901 will be replaced by three pieces of legislation which will provide a renewed framework for the assurance of public sector accountability. These bills, when enacted, will jointly provide the financial accountability mechanisms necessary to carry a modern democratic state into the next century. They will reaffirm and strengthen the Auditor-General's mandate in a more flexible and adaptive environment with considerable devolution of authority and greater commercialisation of activities, including service delivery. The most obvious aspect of the bills is the absence of detailed processes of accountability which are mainly left to the Head of each organisation and described as 'Chief Executive's Instructions'.

One of the main vehicles that will be used to reshape the responsibilities of the APS is a new Public Service Act. The proposed Act will significantly influence the environment in which we all operate. The decision to replace the Public Service Act was announced by the then Government in May 1995 following consideration of recommendations made by the McLeod Review of the existing legislation<sup>1</sup>. The main features of the proposed legislation were to include:

- a statement of general principles of public administration, in particular that the Australian Public Service (APS) should be politically independent, merit-based and cohesive;
- the provision of a clear statement of the Government's and Parliament's expectations of the APS; and
- consistency with changes that have occurred in the management of the APS, offering a more flexible employment framework in keeping with the operating environment of the 1990s and beyond.<sup>2</sup>

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

*... much simplified and streamlined, the Act will articulate the key ethical values, standards and principles of public service, such as accountability, party-political impartiality and fairness in dealing with the public. The Act's use as a mechanism of control will cease.*

*At the same time the employment arrangements for Commonwealth public servants will be brought more into line with those which apply in the wider Australian workforce.<sup>3</sup>*

The legislative package introduced into Parliament last December, which covers the three bills replacing the *Audit Act 1901*, is briefly described below:

- *Auditor-General Bill* (A-G) which will provide for the appointment, independence, status, powers and responsibilities of the Auditor-General; the establishment of the ANAO, and for the audit of the ANAO by the Independent Auditor. Together with the other two Acts, it will provide the mandate for the Auditor-General to be the external Auditor of all Commonwealth-controlled bodies;
- *Financial Management and Accountability Bill* (FMA) which will set down the financial regulatory/accountability/accounting (accrual based) framework for Commonwealth bodies that have no separate legal existence of their own; they are, financially, simply agents of the legal entity, that is the Commonwealth; and
- *Commonwealth Authorities and Companies Bill* (CAC) which will provide standardised accountability, ethical and reporting provisions for Commonwealth bodies that have a separate legal existence of their own (even though they may derive some or all of their finances from the Commonwealth Budget). Such bodies comprise Commonwealth controlled companies and their subsidiaries and those statutory authorities whose enabling legislation gives them legal power to own money and assets.

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These bills will form the basic financial legislative framework within which the ANAO will conduct its audits. However, the Corporations and Taxation laws have also become increasingly relevant to a number of CAC organisations with the attendant demands they place on all concerned. The latter do not just involve the re-orientation of approach required to cope with a different environment but also demand a re-thinking of the appropriate balance to be struck between operating basically in the market economy and the imperatives of the checks and balances of the political economy.

The passage of these bills will provide for strengthened accountability in a time of continuing change. This is particularly important given that many changes will have a significant impact on the methods of service delivery in that, in many cases, the new mechanisms will be at an arms-length for the core public service. In these circumstances it is essential that the accountability requirements on all parties be clearly spelt out and understood. Central to the proposed Auditor-General Bill is a clear specification of the role of the Auditor-General and the important impact of the perceptions and reality of independence in performing that role. Under the Westminster system the predominant emphasis is on the Auditor-General's relationship to Parliament. This has been described as follows:

*The Auditor-General is an officer whose purpose is to provide credible assurance to Parliament on governmental performance. Credible assurance can only be provided by ensuring the Audit Office is independent and competent<sup>4</sup>.*

The latter part of this quote emphasises what should be the obvious *interdependence* of the Auditor-General and the Audit Office. Acceptance of such a relationship has important implications for the future conduct of the role of Auditor-General.

The Joint Committee of Public Accounts (JCPA), in its recent Report entitled: '*Guarding the Independence of the Auditor-General*<sup>5</sup>', made recommendations for inclusions in the new Act that protect the functional independence of the Office of Auditor-General. The JCPA recommended the Auditor-General be designated an 'Independent Officer of the Parliament' and the legal consequences be expressly provided for in the Act and no other. Other recommendations which reinforce this functional independence include the Auditor-General having complete discretion in the discharge of the audit function and the staff of the ANAO being directed only by the Auditor-General in the performance of audit duties. Most of the recommendations were included in the Auditor-General's Bill introduced into Parliament on 12 December last.

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The proposed package of legislation will also make explicit provisions for accountability of Entity Heads. The FMA Bill requires Chief Executive Officers to promote efficient, effective and ethical use of Commonwealth resources. The CAC Bill specifies standards including acting honestly, exercising a degree of care and diligence, disclosing pecuniary interests, the use of insider information and other relevant matters. A particular point to note is that both Bills place an onus on individuals to promote ethical behaviour.

In the case of the FMA Bill, the individual is the Chief Executive. For incorporated bodies, there is a requirement for each Board member to operate within specified ethical standards. In the reform process, the emphasis is on the promotion of ethical behaviour and the key to ethical behaviour is ensuring that all decisions reflect public service values and are transparent to the extent that proper confidentiality/privacy concerns are met. More about ethical behaviour later.

The proposed framework should encourage the Commonwealth public sector to at least address the fundamental issue of what is core and non-core business and the apparently different requirements for dealing with such a dichotomy. This is an issue which, in the future, if not already, has the potential to result in further challenges for the ANAO, for the Australian public sector generally and indeed for the Parliament and others interested in public administration. There would be considerable advantage if the Government and Parliament were prepared to deal directly with what is considered to be 'Core Government'. At the very least we must recognise and understand the different performance and accountability imperatives facing managers in quite different situations and contribute to the best means of responding to them with greater certainty than we have witnessed in the past, for example in relation to the various activities/businesses of the Department of Administrative Services.

The ANAO looks forward to the passage of the legislation hopefully in the next few months. Parliamentary endorsement of the financial management approach will be a major milestone in the overall public sector reform agenda taking us into the next millennium, as I observed earlier. There seems to be strong Parliamentary and bureaucratic support for the legislation to commence on 1 July 1997. The ANAO will be looking at the extent to which entities would be ready to operate under the new Acts in its financial statement audit processes this year and to provide whatever assistance it can for them to do so.

The ANAO will have an important influence on, and will contribute to, the efficient and effective implementation of the Acts when they are finally passed. Our emphasis will be on facilitation as well as on compliance in a more accountable environment. Audit staff must fully comprehend the intent and contribution of the Acts to the overall public management and policy

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environment if we are to add real value to their implementation. This is an important element of our understanding of the 'business of government' which includes familiarity with both the functions and operations of public sector entities, individually and collectively.

The ANAO will be focussing its attention in the coming months on how it can best contribute to this change process, having established its strategic directions on the basis of clearly identifying our own core and non-core business, as well as having, for many years, undertaken audits against differing regulatory environments and the corporate knowledge that goes with such activity. Devolution of authority has raised questions, particularly from the Parliament, about commensurate accountability. While there have been attempts to better match management flexibility and responsibility at the various devolved levels of authority, there have also been concerns to establish appropriate entity or corporate accountability. The latter is primarily the prerogative of the Chief Executive, and secondarily, of the entity management, in whatever manner the entity is organised. And that brings me to issues of corporate governance.

## **Adopting a Corporate Governance Framework**

Governance is the exercise of governing, of authority, direction and control. Corporate governance is concerned with structures and processes for decision-making as well as accountability, controls, and behaviour within organisations.

## ***Lessons From The Private Sector***

Corporate governance (as an all embracing management framework) has become a major issue internationally for the private sector in the last decade. The 'excesses of the 1980s' resulted in a series of financial disasters leading to questions, amongst other concerns, about management and director responsibilities including, importantly, to shareholders. Not surprisingly, attention was often focussed on financial controls and the nature and extent of financial reporting.

In 1985, the American Institute of Certified Public Accountants (AICPA) and other professional bodies co-sponsored the creation of the Treadway Commission (The National Commission on Fraudulent Financial Reporting) to identify the causes of fraudulent financial reporting. The Commission reported in 1987.<sup>6</sup> One of the consequences of this report was the establishment of the COSO (Committee of Sponsoring Organisations of the Treadway Commission) task force to integrate internal control concepts and



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definitions. The COSO Report "*Internal Control - Integrated Framework*" was published in 1992<sup>7</sup>. In the same year, the well known Cadbury Committee Report<sup>8</sup>, covering similar issues, was published in the United Kingdom.

The Australian Institute of Company Directors and other professional bodies have been mirroring these developments and applying them to the Australian context. The most recent development was the introduction of the corporate governance listing rule (4.10.3) by the Australian Stock Exchange (ASX)<sup>9</sup> which requires listed companies to make statements on corporate governance issues in their annual report on or after 30 June 1996 (see Appendix 4A of the ASX Listing Rules).

There have also been a number of spectacular financial collapses in various public sectors in Australia. In addition, there have been several instances of public sector agencies failing to meet the non-financial expectations of both regulators and stakeholders on a fairly extensive scale. As such, similar questions of control, reporting and accountability have been raised about Government Business Enterprises (GBEs) in a corporate governance context. Clearly, there are direct lessons to be learned from experience in the private sector in these respects. But are the underlying principles and approaches confined only to commercial type operations, particularly relating to corporations? To answer that question, let us look more closely at the nature of corporate governance.

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## ***Defining Corporate Governance in the Public Sector***

Corporate governance is fundamentally about how we manage ourselves and our various relationships with those who have an interest or stake in the organisation and/or what it does. In particular, it is about providing assurances to stakeholders that we are keeping faith with the vision, role and values set out in the organisation's Corporate Plan, as well as in any Code of Conduct that guides the behaviour of those involved. Corporate governance is also about the control and monitoring mechanisms that are put in place by organisations with the object of enhancing stakeholders' value (broadly defined) and their confidence in the performance and integrity of the organisation.

In the public sector context, corporate governance is also about ensuring that the organisation and its people exhibit high standards of official conduct and professional practice and fair dealings in accordance with recognised professional and APS standards and ethics.<sup>10</sup> In my view there is more than just an issue of degree in these respects between the public and private sectors. In fact they raise interesting questions about if, and how, such requirements could be successfully applied, or be seen to be applied, to private sector providers of 'public services'.

The values, standards and practices which underpin corporate governance in public sector agencies flow from peak APS values, obligations and standards, which in turn are derived from legislation, policy and accepted public service conventions. Decision-makers should be careful not to underestimate the importance of the cultural and experiential factors which reinforce acceptance of, and the commitment to, these notions of public service.

Elements of good corporate governance should:

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

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In the private sector there is a clearly defined relationship structure between the main parties connected with a corporation. The actual relationship is often expressed in a contractual form either on an individual or collective basis. The generic private sector governing structure consists of a board of directors including the chairperson of the board and a CEO responsible for the ongoing management of the agency. However, this model is not readily transferable to the non-corporate public sector because of the different relationship between the CEO and the Minister. As well, the Australian citizens (shareholders) have no choice as to their investment. Many public sector agencies are, however, developing a Board of Management to assist the CEO in the running of the agency, at least at the strategic policy setting level.

Activities of existing boards, executive committees and other committee structures within the entity ideally should be better integrated to become part of an internally consistent overall framework for exercising corporate governance principles. In most cases this would entail reconstitution and redesign to ensure that the core focus is on meeting agreed governance requirements flowing from those principles and the discipline that goes with such a commitment. Experience to date indicates that a lot of effort can be non-productive, including some at cross purposes, because the various organisational and other elements often pursue their own agendas with little or no consultation, let alone coordination of related activities and decisions.

A sound governance framework would, for example, assist an entity to:

- achieve its corporate objectives;
- identify, prioritise and manage risk;
- promote high ethical standards;
- ensure various management roles and accountabilities are clear;
- provide relevant and timely information to the appropriate people; and
- meet emerging benchmarks for internal control and information reporting on results.

The framework would impact on entities in varying ways reflecting their nature and structure, for example departmental, statutory authority or GBE. While the last category would be the most likely to reflect private sector governance approaches, their public sector responsibilities would require some variations to those approaches. The latter need to be identified and tested to achieve an acceptable balance between results achieved and the responsibility to accord with basic public sector principles and ideals.

## ***Building a Governance Framework Within Public Sector Entities***

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While noting that public sector agencies vary in their nature, organisational complexity, size and client base, it should also be recognised that they currently have largely common internal structures which support the CEO's decision making. These same structures would be essential building blocks to form a governance framework for the entity.

The support structures involved are those relating to:

- values and ethics;
- internal accountability;
- external accountability;
- financial management; and
- resources, including asset, management.

I will now discuss each of these in a little more detail.

## **Values and Ethics**

A clear set of values supported by a code of ethical conduct provides a basis for assurance to the CEO that there is consistent ethical behaviour at all levels of the entity and that its employees:

- comply with general public sector standards, codes of ethics and other applicable codes of conduct (eg. for those of professional bodies);
- act with integrity in the performance of official duties and are beyond reproach in the use of official information (usually required under the foregoing codes);
- exercise consideration, sensitivity and openness in their dealings with members of the public and fellow employees; and
- identify and deal decisively with any real or perceived conflict of interest.

## **Internal Accountability**

Clearly enunciated control mechanisms, guidelines and review/monitoring procedures enhance the confidence a CEO can have in the internal control and management of the organisation and the planning and review of its

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operations and progress in meeting its corporate objectives, while fostering consultation and feedback on all its activities.

Accountability structures for effective internal management of the entity include executive committees, audit and other operational committees set up for specific tasks. The means by which accountability is exercised is increasingly by use of information technology (IT) based management information or decision support systems. Also of growing importance is simplified access to integrated corporate data bases with their integrity being protected by either corporate controls and/or replication technology that allows considerable flexibility outside the control environment.

Structures for entity planning and review include the corporate, strategy, business, risk management and Human Resource Management (HRM) plans, internal delegations, quality control systems, benchmarking, evaluation and performance monitoring to ensure that all responsibilities under the control of the CEO are carried out with due care and diligence as well as efficiently and effectively.

## **External Accountability**

CEOs are accountable to their Ministers; who in turn are accountable to the Parliament and, through the Parliament, to the general public<sup>11</sup>. CEOs also have responsibility to their direct clients and other stakeholders which need to be clearly identified. Reporting of performance should be transparent. Public reporting is the essence of accountability.

An entity which has a clear understanding of its responsibilities and an open (transparent) approach to the way in which they are discharged will greatly assist the CEO, Minister and the government in framing and winning support for identified strategies. It will also increase general confidence in the operation of the public sector.

## **Financial Management**

A clearly defined financial management framework provides a sound basis for assurance to the CEO that the entity's resources are being managed efficiently, effectively and ethically. Such a framework should include:

- preparation of financial statements on an accrual basis;
- establishment of an appropriate 'control environment';

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- implementation of a fraud control plan;
- establishment of an effective Audit Committee;
- support for a credible internal audit and evaluation capability; and
- ensuring the accounts and records are maintained as required.

Financial management will increasingly be on an accrual accounting basis, in accordance with Government policy as well as our budgeting processes and presentation.

## **Resources, Including Asset Management**

A well articulated resource management planning and operational structure should provide reasonable assurance to the CEO that human resources, facilities, equipment and records are being managed effectively, efficiently and ethically.

However, good governance requires more than simply instituting committees, guidelines and reporting mechanisms. It also requires control structures which are designed to deliver corporate objectives efficiently and effectively within resource availability. All existing internal entity resource management structures would need to be reviewed and possibly refined or reconstructed to support a cohesive corporate governance framework. Again, the concern is to ensure a well integrated and mutually supportive set of structures that are focussed on achieving identified outcomes. In short, it is a result-oriented approach based on due process.

## ***Recent Corporate Governance Initiatives in the Public Sector***

In the area of corporate governance, there is much the public sector can learn from the experience of our private sector colleagues. We understand that, while private sector solutions may not be directly translatable to the public sector, there are suitable alternatives which can help achieve a similar outcome.

As a result of the recent recognition of the need for good corporate governance in the public sector, the ANAO along with other public sector agencies has been involved in developing suitable public sector governance frameworks that are credible, are of real benefit to management and enhance external scrutiny.

The ANAO has developed a draft statement<sup>12</sup> on (the mainly core oriented) public sector corporate governance which is designed to assist CEOs in

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establishing an appropriate management framework for their entities which we anticipate will lead to efficient and effective use of Commonwealth resources in a fair, equitable and ethical manner. We have sought comment on the document from Commonwealth agencies and entities on how the draft statement could be improved or enhanced. We have also included the draft document on our Internet site<sup>13</sup> and encourage any comment on the document. In essence the document is intended to encourage entities to consider corporate governance principles and the ways in which they could be developed in the particular circumstances of the entity concerned.

Our interest in Corporate Governance has a number of facets. Firstly, by preparing and widely distributing a statement on this topic the ANAO is influencing change which directly supports our vision of being a major contributor to achieving excellence in public sector administration and accountability. Secondly, we saw value in applying the principles of corporate governance to administration of the ANAO itself. As an indication, I included, as part of my 1995-96 annual report to the Parliament on the activities of the ANAO, a statement on corporate governance activities within the ANAO. Thirdly, our audit work, both financial and performance, will increasingly focus on governance issues both at corporate and program levels within agencies. This should not surprise anyone because where an agency has in place good governance processes, we can be reasonably confident that adequate performance, control and accountability mechanisms are in place and working. This is the sort of assurance that all auditors look for either in the annual attesting of financial statements or the audit of specific government programs or operations.

### **III Major Elements of the Changing APS Environment**

Having now recognised the legislative framework within which we will be working, the next task is to identify the main elements of the changing public management environment and some of the likely implications they will have for accountability. We recognise that the ANAO is not somehow outside the public sector reform process. Therefore we are working hard to ensure that the reforms are implemented to the fullest extent within our own organisation. As well, we recognise how well placed we are to contribute to the implementation of the various reforms throughout the APS, such as to adopt accrual based accounting, budgeting and reporting and related systems developments. The actions being taken as part of our commitment to this vision are discussed in the last section of the paper.

First, we all need to ensure that we understand, as best we can, the nature and intent of changes in the public sector environment and be proactive rather than merely reactive in setting our priorities and strategic directions. In setting our priorities we should be taking into account the directions set by

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the Management Advisory Board and its interdepartmental Advisory Committee (MAB/MIAC) in the various publications such as Building a Better Public Service<sup>14</sup> and Ongoing Reform in the Australian Public Service<sup>15</sup>.

As well, we particularly need to take account of the recent discussion paper<sup>16</sup>, issued by the Minister for Industrial Relations and the Minister assisting the Prime Minister for the Public Service, the Hon. Peter Reith MP, outlining the goals of the intended reforms, as follows:

*to improve the overall performance of the APS and, by so doing....[provide]... skills and a high standard of professionalism in order to implement Government policies and programs in the future.*

and

*The Government is committed to an APS that has embraced the best practice of contemporary management and is able to benchmark its performance against the private sector. It looks to reshape and reinvigorate the APS and through the process ensure that the Australian public is provided with access to better government'.<sup>17</sup>*

The Government is well aware that such changes will pose a significant challenge to the APS. The need for a flexible, responsive public service is all the more important in an environment where we are being asked to deliver more with less, and where service delivery will occur using different arrangements from those considered or used in the past. The latter include the introduction of competition to traditional public services, the separation of the purchaser from the provider and so on as I discussed earlier.

The Minister's discussion paper also identifies:

*a range of initiatives that might serve to improve public accountability for performance, increase competitiveness and enhance leadership: for example, a Charter of Government Performance, Government Service Charters, public performance agreements for Agency Heads and the SES, the replacement of outdated hierarchical controls with more contemporary team-based arrangements, greater devolved responsibility to the agency level, giving agencies flexibility to decide on their own systems for rewarding high performance and streamlined administrative procedures.<sup>18</sup>*



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These initiatives taken together with the proposed package of legislation discussed earlier will serve, and reinforce, the fundamental values espoused by the APS, that is integrity, honesty and impartiality. A culture of ethical behaviour is particularly important in the APS because of the discretion inevitably involved in the development and implementation of public policy and dealing with people as citizens in a democratic society. In recognition of this, the Prime Minister, the Right Hon. John Howard MP, on 9 May 1996, launched the publication Ethical Standards and Values in the Australian Public Service. In his address, he made the following observation:

*... the Australian public is very fortunate that, over the years, it's had a federal public service that has been distinguished by two characteristics. The first of those characteristics is an extremely high degree of integrity and honesty... The other characteristic of course, is a very high degree of professionalism, and a willingness over the years - irrespective of the political complexion of Government - to give comprehensive and, on most occasions, pretty zealous technical advice.<sup>19</sup>*

All these initiatives are aimed at ensuring a professional public sector which delivers appropriate outcomes. It is important that such initiatives are accepted as an integrated supportive framework that all of us understand and to which they are committed. This requires confidence, trust and shared values. These are some of the keys to achieving real accountability for performance. I will now discuss three areas where accountability issues are likely to be of considerable and ongoing importance in the changing public sector environment.

## **New Service Delivery Arrangements**

As just mentioned, new ways of delivering public services are being considered or are already being implemented. Most public servants are familiar with contestability of ideas and views and in their bids for resources. In March 1996 Gary Sturgess, in speaking about the Changing Face of Government<sup>20</sup> noted that contracting-out is not a new phenomenon for the public service. However, as he also pointed out, a major difference is that 'we are now contemplating competition in the central functions of government.'<sup>21</sup> The aim of introducing new service delivery arrangements is to improve efficiency and effectiveness. This should be regarded as a discipline as well as an opportunity.

The Department of Finance published a useful outline of concepts, case studies and lessons learned in relation to contestability late last year. Their definition of contestability for the APS is: *'the prospect of competition in*

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*public sector activities to improve both program efficiency and effectiveness.*<sup>22</sup> Consideration of contestability and competition brings into question issues of 'competitive neutrality' or the so-called 'level playing field'. In practice these conditions are not capable of being implemented effectively or credibly in our current environment.

While most criticism about competitive neutrality usually comes from the private sector, which tends to be more about gaining entry and access, in reality it is often the public sector which is at a significant disadvantage. And the latter is not just about a higher cost structure often brought about by factors endemic to public administration and over which public service managers have had very little, if any, control.

Fortunately, as discussed earlier, this situation is changing, albeit slowly. In my view, the most inhibiting factors for public sector managers are the constraints on funding and the ability to determine the nature and extent of business being conducted and thereby maximise opportunities for success and minimise costs. As well, the public service industrial framework, including elements of the remuneration package such as superannuation, has created its own challenges. Many would consider these factors outweigh any implicit government guarantee or possible cross-subsidisation - intentional or otherwise through, for example, inadequate costing systems.

We must bear in mind that the public service activities are heavily restricted by the terms of the Constitution virtually confining the public service deliverer to functions approved by, and within the resources provided by, Parliament. As well, it is important to distinguish between public sector core and non-core business as the latter is more likely to be subject to competition. What do we mean by core and non-core functions or business? Core Government activities are generally taken to mean those activities where there is general acceptance that they should only be performed under the direct close control of the Executive Government, for example, Defence, Trade, Foreign Affairs, Treasury, Taxation, Immigration. Non-core activities are those which by their very nature require a degree of independence from the Executive. In the current environment we are all being asked to examine the activities we undertake, as well as the services we provide, to determine whether these can be undertaken or delivered differently.

Subjecting the delivery of services to competition is one method of improving efficiency and effectiveness, as would be familiar to those in the Department of Administrative Services. As well as the introduction of competition, the continued and broader use of contracting-out is yet another way of delivering services. Contracting-out has always been a feature of the public sector - something which may not be appreciated by many observers. Commonwealth departments are accustomed to making a wide range of contracts with the private sector but the range of services contracted out has been widening in recent years.

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Some departments are now contracting for the private sector to provide the public with core services that they previously provided themselves. That is, the departments are becoming purchasers of services and separated from the providers. Broadly defined, a purchaser/provider arrangement is one in which: (1) the purchaser is the agent who decides what will be produced; and (2) the provider is the agent who delivers the agreed outputs or outcomes. As noted by Finance, a purchaser/provider arrangement is the basis of most contractual and commercial arrangements operating in the public sector.<sup>23</sup> A more complicated situation arises when a part of a department is also a provider intended to be in a contestable situation with the private sector.

I see value in at least considering an option of some continued public sector provision particularly of services involving entitlements to promote better understanding of, and familiarity with, service delivery issues in the changing environment. This would ensure, in particular, that policy makers are able to be provided with more timely and better insights on program effectiveness and appropriateness. There may also be a need to provide services by a public entity where for various reasons the private sector may not be interested or there is simply not a competitive market. In such situations the public sector provider's performance could be assessed, in part, by appropriate benchmarking against relevant private and public sector experience in order to ensure adequate accountability rather than through an arrangement of quasi-contestability where the attention can tend to be overly focussed on narrowly based cost/price comparison. Alternatively, are close regulatory/supervisory/quality assurance mechanisms or arms length outcomes the only measures acceptable for accountability purposes by either or both service providers and the Parliament? I suspect that there will be no one agreed answer. However, it is important that a thorough assessment (for example an ex ante evaluation) is made to help achieve the most cost effective outcome and provide assurance of real accountability.

High transaction and compliance costs are often associated with purchaser/provider arrangements. To an extent these depend on just how the 'services' to be delivered are defined and any contract conditions on how they are to be delivered. Any Government Service Charters should give attention to the treatment of accountability issues as well as outlining commitments to recipients. We have to be careful about imposing excessive input controls on the arrangement to the possible detriment of efficient and effective resource use as well as inhibiting initiative and ideas which can contribute significantly to actual outcomes or results. The trade-offs are basically dependent on making judgements about appropriate balances. This places a heavy burden on information systems and assessment of probabilities of occurrences or events. Any systems should be primarily aimed at preventing problems, providing scope for detection and ensuring that decisive action is taken to deal quickly and firmly with unwanted outcomes. Information technology provides the means of extending a productive relationship between clients and service providers. We are

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witnessing innovative approaches in this respect from the social welfare and business oriented agencies. We can learn from such better practice.

Some examples of these new arrangements include the establishment of 'One Stop Shops', for example AusIndustry, Service Delivery Agencies (one of which initially is planned to deliver some Department of Social Security (DSS) and Department of Employment, Education, Training and Youth Affairs (DEETYA) services) and Employment Placement Enterprises, which will deliver case management to the unemployed. It is particularly important to note that in these arrangements the customer/client is at least one step removed from the responsible Commonwealth department but that the department remains accountable for the service delivery. As well, in such arrangements policy advising and administration may well reside in different entities. In these cases special care needs to be taken to ensure that satisfactory links and feedback loops are maintained not only to maintain program efficiency and effectiveness but also its appropriateness in a changing world.

In this environment of a devolved and decentralised administration it is important to ensure that appropriate effective services continue to be supplied to the Australian public. In order to do this and to be able to assess outcomes in an arms-length relationship it is important that contractual relationships are clearly specified. These contractual relationships can take the form of service level agreements, memoranda of understanding or work-based protocols. These documents often articulate what results are expected, from whom, how results are to be evaluated and how differences are to be arbitrated. Contractual arrangements can encompass a degree of uncertainty but no-one would seriously be satisfied with continually changing contract arrangements to cope with ineffective or inadequate service provision as it may be defined.

It is particularly important that, whatever the contractual arrangement, early consideration be given to obtaining expert advice on developing the contract to later save the Commonwealth the time and expense of rectifying difficulties which arise, often after the contract has been signed. Conflicts can arise with contracts that are either too broad or too restricted in their coverage. The actions of government often need to be flexible to respond quickly to changing circumstances. This puts some pressure on having appropriate contingency clauses or at least an agreed mechanism for addressing problems. A complementary issue is that of assignment and acceptance of responsibility. This is an area where the trust and confidence needed in a genuine partnership to achieve the required results cannot be emulated in a contractual relationship. Nevertheless, there is sufficient evidence that performance clauses in contracts can be made to work effectively and not counter-productively.

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Vague relationships do not assist either party nor lend confidence to the partnership arrangement. Clear definitions of the boundaries of a contract should assist in resolution of any disputes as to what is, or is not, covered including basic deliverables such as service levels and response times. As with any performance information, it is important to state clearly any expectations as a basis for regular evaluation as the lynch-pin of accountability for performance.

Moves to outsource service provision require good performance information to support, for example, the development of tenders, assessment of proposals and monitoring of contractual commitments including ongoing performance by third party service providers. For this reason it is important to require, as part of the contractual arrangement, the provider to supply the purchaser with outcome information against which the former's performance can be assessed. In this way, even if the client is one or more steps removed from the responsible department, it will still be possible to ensure that clients are receiving the appropriate level and quality of service. However, we also need to have a sound appreciation of the commercial nature of such agreements in the interests of both parties.

The public sector has traditionally carried a high level of social and political responsibility and accountability in respect of procurement of the many services it needs to operate effectively. These responsibilities flow primarily from the fact that public interest demands value-for-money and fairness in the treatment of potential suppliers to government. These issues are formalised in the general requirements in Finance Regulations 43, 44A and 44B that officers procuring supplies (including services) must choose methods that will promote open and effective competition and must satisfy themselves that they are obtaining best value for the Commonwealth. It should be noted that this is a wider test than best value for their department or their particular project.

It has been suggested that the stricter the accountability requirements the greater the case against contracting-out. Government departments and agencies are more accountable than private sector enterprises, as their decisions are open to scrutiny by Parliament, the ANAO, the Ombudsman, the courts, the Administrative Appeals Tribunal (AAT), the media and the general public. Private sector enterprises are not open to the same scrutiny. Furthermore, directors and managers of private sector companies owe fiduciary obligations to the company and shareholders to act in the best interests of their company and not necessarily in the public interest. These interests could conceivably be in conflict from time to time.

There seem to be changes in the rules on the way. The Attorney-General in September 1996 issued a discussion paper on the possibility of extending the Privacy Act to the private sector. If this happens, contractors may have direct statutory obligations in relation to their handling of personal

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information. In addition, Orders issued under the legislation replacing the Audit Act may require major Commonwealth contracts to provide for access to contractors' records by the relevant department and the ANAO. This would extend both departments' and contractors' accountability for the way that contractors spend money on work for the Commonwealth.

To achieve an adequate level of control and performance monitoring of a contract, the primary responsibility for ensuring sufficient access to relevant records and information relevant to a contract is the responsibility of agency heads. From an accountability viewpoint, the ANAO considers it is critical that agencies consider the nature and level of information to be supplied under the contract and access to contractors' records they require to monitor adequately the performance of the contract.

As part of its statutory duty to the Parliament, the ANAO may require access to records and information relating to contractor performance. The ANAO considers its own access to contract related records and information would generally be equivalent to that which should reasonably be specified by the contracting agency in order to fulfil competent performance management and administration of the contract. From this perspective, the ANAO considers it is imperative for contracting agencies to ensure the contract allows for:

- sufficient access to records and information of the contracting parties to allow them to ensure their own, and ultimately their Ministers', accountability expectations are met; and
- the Auditor-General to have sufficient access to ensure the accountability requirements of the Parliament are met.

Access to relevant records and information could be met by standard contract clauses supplemented as necessary by particular clauses that reflect any peculiarities of a particular situation. The use of mainly standard contract clauses would enable all parties contracting to the Commonwealth to be aware of the Commonwealth's expectations and their obligations in this regard for all contracts.

There is clearly going to be a closer focus on departments' interface with tenderers and contractors. The JCPA has indicated that this is an area of interest to them. The ANAO's performance audit reports have drawn attention to this area and urged more care by officers when assessing value-for-money and negotiating, preparing, administering and amending major contracts. Departments would do well to get expert advice at each of these important stages in procurement in order to protect the Commonwealth's interests. It is not enough just to have a 'good' contract. The real test often comes after contract signature. From the Commonwealth's viewpoint major

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project management often comes down to firm and skilful contract management.

Partnership arrangements depend importantly on soundly based agreements which can literally be put in a bottom drawer for reference purposes only. The success of such arrangements depends considerably on establishing a solid basis of trust with scope for a 'give and take' relationship within the terms of any agreement. This does add an element of risk because judgement can be involved often at relatively short notice. This is the essence of good management. However, the Commonwealth's exposure to any adverse implications must be clearly within the terms of the agreement. This not only assists WIN-WIN outcomes but also ensures transparency (accountability) of the decisions being taken.

A broader-based risk which should be considered is in the context of the increasing cross-entity and cross-program focus for development, evaluation and review purposes. This is identified by Finance as follows:

*Under purchaser/provider arrangements, there is a risk that the vertical relationships within a portfolio or organisation will be strengthened at the expense of horizontal ones. Managers may place less emphasis on co-ordinating programs and policies across portfolios.<sup>24</sup>*

Whatever the partnership is under the contractual arrangements, there is a heightened need for sound risk management in relation to all phases of operation and for appropriate performance information. These are discussed under separate headings below.

## **Risk Management**

Risk management has been defined as: *'the systematic application of management policies, procedures and practices to the tasks of identifying, analysing, assessing, treating and monitoring risk'*.<sup>25</sup>

In October 1996 MAB/MIAC released Guidelines for Managing Risk in the APS which state that:

*Risk arises out of **uncertainty**. It is the exposure to the possibility of such things as economic or financial loss or gain, physical damage, injury or delay, as a consequence of pursuing a particular course of action. The concept of risk has two elements,*

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*the **likelihood** of something happening and the **consequence** if it happens.<sup>26</sup>*

Risk management, like the development and use of performance information, is not a discretionary activity. It is an integral part of corporate governance and therefore good management, especially when we have limited resources. Against the background of the increasing use of a range of different service delivery arrangements risk management can only become more important. As with any other aspect of public sector administration, risk management has to be considered in the context of the changing culture and environment of the public service.

The APS will be operating in a field of new demarcations between purchasers and providers of services and between policy and program delivery. The Ombudsman has referred to a 'no-mans' land' of accountability and unpublicised transfer of risk.<sup>27</sup> In response to a range of complaints being received the Ombudsman has observed that:

*Where contractors provide core government services indirectly it is critical that the thread of accountability goes back to the principal agency. Agencies should not contract out responsibility at their clients' expense.<sup>28</sup>*

In the situation with the new service delivery arrangements, as with all other APS activities, risk must be acknowledged and managed appropriately.

In a keynote address to a Public Sector Accounting Convention late last year, the Chairman of the JCPA, Mr Alex Somlyay, noted that the Government has some significantly different approaches to the role of the public sector and the way in which public services are delivered. He went on to say that the Government is looking for innovative and well considered strategies to improve APS operations and service delivery. He stressed: '*...the need for APS managers to adopt, to a greater degree than in the past, prudent risk management strategies.*'<sup>29</sup>

Of particular importance is Mr Somlyay's observation that:

*My Committee is not interested in making scapegoats of managers when mistakes happen. Rather our focus will be on investigating the risk management plans that were in place and considering what lessons can be learned and how the same mistakes can be avoided in the future.<sup>30</sup>*



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This is very encouraging in that it clearly demonstrates the view that we should learn from our mistakes rather than looking for who is to blame. But only where it can be clearly demonstrated that we had undertaken appropriate risk management not just thrown caution to the winds and engaged in some risky management. For most of us the issue is not really about the concepts of risk and risk management but on what we need to do to get the right outcomes. The understanding and conscious use of sound risk management is becoming increasingly widespread with the reservation that it needs to be supported by the same understanding by the Parliament. Contrary experiences inhibit progress or lead to hasty retreats such as occurred in some entities with the use of the Australian Government Credit Card.

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Since prevention is better than cure, the key to any risk management approach is being proactive and well informed and having an appropriate control environment in place. Managing risks is far more pervasive than dealing with losses from fraud, theft or inefficiency, important though the latter might be. Less than adequate performance, for example, is also a risk that has to be addressed. To manage risks and prevent undesired outcomes, risks first must be identified, analysed, prioritised and reviewed. Risk assessment means determining the likelihood of a risk being realised, what can cause this outcome and what effect is likely on your function or business. Following assessment, decisions can be made as to whether the risks are sufficiently important to require specific management action but, if so, how they should be managed to maximise performance and be accountable for any outcomes.

Risk-taking is a dynamic exercise. Continued monitoring and review are necessary for successful risk management because risks not only change over time but their relative significance may also change, as may the mechanisms and tools to manage the risks efficiently and effectively. Constant vigilance is the price to be paid where there is a possibility of loss or less than satisfactory use of the public's resources.

One of the important tools to manage risk is performance information. Performance information can help identify where you are heading, how you will get there, whether you are heading in the right direction and whether you are using resources in the most cost effective manner. In essence it is a safety net both for informed decision making and an early warning system to make necessary corrections where judgements prove to be wrong or circumstances change from those initially apparent. Systematic monitoring of your performance indicators, for example, provides early warning of potential/actual problems so that prompt remedial action can be taken.

While there is and always has been a need for a systematic approach to risk management with the introduction of new ways of undertaking public sector activities and delivering services there are some particular risks that need to be acknowledged.

Some of the risks in the new service delivery arrangements are:

- in a contestable environment CEO's and Ministers have greater responsibilities than private sector CEO's, that is, national security, parliamentary accountability and equity across citizens need to be taken into account in the public sector environment not just the question of

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profit. CEOs and Ministers also need to ensure that core and non-core business is appropriately defined so that the appropriate accountability mechanisms can be applied productively not counter-productively;

- exposure to risk must be dealt with in the relevant agreements developed under purchaser/provider arrangements; and
- under any arrangement there is a need for appropriate performance clauses in contracts to minimise risks of not achieving outcomes with the requirement for the performance information to be auditable.

## **Performance Information**

Performance information is a critical tool in the overall management of programs, organisations and work units. It is important not as an end in itself, but in the part it plays in managing effectively and has an expanded role in the new ways of delivering public services as a means of protecting Commonwealth and public interests. Performance information is therefore not discretionary nor simply to be put off as a secondary consideration. No one finds it easy. It can prove to be one's Achilles heel or, alternatively, the best defence of a program and of the people who are responsible for it. I regard it as recognition of a job well done as well as a means of identifying where improvements can/need to be made.

Performance information fits within the wider management framework that includes objectives, strategies for achieving objectives and mechanisms for collecting and using performance information. Performance information is documented and reported in corporate publications to the Parliament and other stakeholders and managed within the annual corporate cycle. In these respects it is crucial to public sector accountability. Put simply, it is the main means through which assurance is provided transparently to the Parliament and public that the Government's objectives are being met.

The current responses are very strongly focussed on outcomes but performance information must provide us not only with an understanding of the outcomes achieved but must tell us the full story about the level of inputs and outputs, whether the processes used are cost effective, are the services provided of the appropriate quality and so on. In focussing on outcomes we should not lose sight of the means of achieving the outcome which need to consider among other things, social and equity issues. In this case we must be wary of the ends justifying the means.

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The development of performance information can be both resource intensive and costly. Therefore we should focus on a suite of key indicators which measure something of importance rather than something easy.

I think it is important to revisit the definition of performance information so that we all have a common understanding of what is meant. *Performance information* is evidence about performance that is collected and used systematically. Performance refers to the carrying out or achievement of a particular purpose, task or function. For a program, organisation or work unit, the key elements of the program or work structure include the resources used (inputs), what is done (processes), what is produced (outputs), and what impacts are achieved (outcomes). Performance information addresses the relationships between these elements. It should facilitate the identification of outcomes and the monitoring and evaluation of the efficiency and effectiveness of processes used to achieve them. That is, it should provide sufficient information to answer questions on key aspects of performance, such as:

- \_ How effective is the program in achieving the desired outcomes?
- \_ How efficient is it in using inputs to produce the required outputs?
- \_ What is the quality of the program's outputs and outcomes?
- \_ Are clients receiving a satisfactory level of service?
- \_ Is the program meeting access and equity requirements?

Performance information may be obtained in a number of ways. It may be specifically sought through client surveys, extracted from management information systems or be an outcome of evaluative activities. Program evaluations themselves can be a rich source of performance information.

Performance information can be used to monitor the ongoing performance of programs and organisations - to provide information which enables judgements in the short term about how they are performing. Performance information is also used to make periodic and more in-depth evaluations of performance over medium to longer-term time frames. Performance monitoring and evaluation both require performance information and are complementary approaches to assessing performance.<sup>31</sup>

Having said performance information is not necessarily easy to develop there are some characteristics which, if they are considered in its development will ensure that we develop good performance information. Each of these is discussed separately below.

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- **Quantitative and qualitative performance information.** Performance information may be quantitative (has a numeric value) or qualitative (that is, characteristics are described). The latter are particularly useful because, as noted by the MAB/MIAC Report *Performance Information and the Management Cycle*<sup>32</sup>. In many situations it is only with qualitative performance information that the objective and strategies can be directly linked and cause/effect (impact) relationships demonstrated. Nevertheless, every effort should be made to measure performance where it is feasible to do so.
  
- **Achieving an appropriate balance.** Historically, performance information tended to be concentrated on the measurement of inputs and outputs. However, balanced sets of performance information are important as they facilitate management and accountability, and enable the investigation of the interactions and inter-relationships between the factors which influence outcomes. If only one aspect of program performance is measured, it is likely that this is what program managers will (generally) concentrate on. As a result, overall program performance could deteriorate.
  
- **Data: validity, reliability and accuracy.** The data used should be of a high quality. Therefore, it should be:
  - valid, in that it actually measures the characteristic it purports to measure;
  - reliable, in that, given set conditions, the information collected will not vary significantly; and
  - accurate and timely.

Where necessary, expert statistical advice should be sought to ensure that the information collection techniques are appropriate. In particular, it is important to ensure that the information is not biased because of, for example, poor survey design or sampling errors:

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- **Number of items.** There is no 'ideal' number of items of performance information. Rather, the emphasis should be on balance, quality, usefulness and timeliness. A small set of key performance information is likely to be more manageable and consequently more useful. However, it may be necessary for people at different management levels, levels of Government, or in different geographic areas, to have information on different aspects of performance.
- **Cost/benefits.** The cost/benefit of collecting key data items or improving existing data collections is an important consideration. The benefits arising from the collection of additional or more accurate information should outweigh costs related to the collection, storage and use of the information. To assist in reducing costs and maximising benefits, key performance information relevant to each goal or objective should be identified.
- **Continuity of performance information.** An important aspect of performance information is continuity. If the information is stable over time it can be used to determine what trends exist and, for example, if performance is improving over time. It is, however, reasonable for performance information to change from time to time in order to ensure it remains credible, actually reflects performance achieved, and is relevant and useful for performance improvement.

Actual assessment of performance, whether for ongoing program monitoring or evaluation, is based on comparisons. Standards, targets, benchmarks and milestones all provide a basis for comparisons. A detailed discussion of these mechanisms and the characteristics of good performance information can be found in the recently released, joint ANAO and Department of Finance better practice guide: 'Performance Information Principles.'<sup>33</sup>

Whether it is in the development of the performance information itself or the mechanisms which allow assessment of our achievement we need to be careful that we do not encourage inappropriate actions or behaviour. For example, in the setting of targets, care should be taken to ensure that the focus does not become the achievement of individual targets at the expense of overall performance. A particular case in point would be where departments receive enquires from the public they need to ensure that process performance information and associated targets, such as time to answer telephone calls, are complemented by quality of service performance information.

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Having developed the mechanisms to allow the assessment of performance, it is important that we use our performance information for ongoing monitoring as well as for point in time assessment and reporting. Ongoing monitoring at different levels in the organisation assists to identify at an early stage if there are problems. Prompt remedial action can then be taken to ensure that our program is on the right track and that we are using our resources in such a way so as to maximise outcomes.

In reporting on outcomes, particularly to the Parliament, performance reports should be balanced and candid accounts of both successes and shortcomings. They should have sufficient information to allow Parliament and the public to make informed judgements on how well agencies are achieving their objectives. Reports should include information on performance trends and comparisons over time rather than just a snapshot at a point in time which may be misleading. Internal reports should relate to the organisations objectives and strategies and include information on critical factors which local managers are responsible for administering.

Australia is not alone in grappling with the development and use of sound performance information, particularly in the light of the new service delivery arrangements. Significant developments have been occurring in New Zealand, the United States of America, Canada, the United Kingdom and in a number of European countries such as France and Sweden. Many countries are now actively sharing experiences on deriving suitable performance information for accountability purposes.

## **IV. The ANAO's Role in Maintaining/Enhancing Accountability**

Having outlined major aspects of the emerging public sector environment and the changing accountability framework, I come to an issue that I was specifically asked to address and that is the role of the ANAO in such a future. The ANAO's effectiveness is directly related to the extent to which we understand the environment in which we work. The ANAO does not stand outside the APS as some kind of interested on-looker. We are an integral part of the Service and of the changes and reforms which are occurring. We understand that we must not only take account of the changes to public sector operations in the conduct of our own work but we must also, as the agency with a key role in bringing about improvements to administration, work hard at promoting and facilitating required and desirable change.

Any discussion of the role of the Auditor-General and therefore the Audit Office must consider two themes. These are accountability and independence. In the same way that other agencies are held accountable for the outcomes achieved and the methods and resources used to achieve

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them, so too is the ANAO. At the same time, in order to provide credible assurance to the Parliament on governmental performance the Audit Office needs to be independent. This does not preclude having a close working relationship between the auditor and the client entity for mutual advantage without undermining the independence of the auditor. Indeed, such a relationship should facilitate overall improvements to public administration. However it is necessary to point out that our main client is Parliament and our purview is the Commonwealth Public Sector as a whole.

As a first step in ensuring that we will be able to meet the challenges of the remainder of the 1990s and into the twenty-first century, we have closely examined our own business and our own performance. The legislative framework discussed earlier is very relevant, particularly in clarifying concepts and relationships. We welcome the separate Auditor-General's Bill. We think the basic distinction between core agencies of government and non-core bodies controlled by government in the FMA and CAC Bills will prove to be increasingly useful. The split reflects, inter alia, a general acceptance that some activities should only be performed under the close and direct control of the Executive, whereas others by their very nature require a degree of independence from the Executive. Where then, do the activities of the ANAO rest in such a debate?



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The ANAO delivers its audit products (and more on these later) through two business units, although both types of audits are viewed from the perspective of the overall framework of accountability for performance. We have been confronting directly the issue of private sector involvement in public audit in recent years. About 20 per cent of our running costs are now applied to contractors, much of which relates to the use of private firms that conduct financial audits as our agents. These latter audits remain our responsibility and we therefore retain a strong project management and oversight role over their conduct.

Apart from the obvious professional and statutory requirements of both the Auditor-General and the ANAO, there are other important accountability obligations to the Parliament that demand our direct involvement in any audit activity conducted within the Commonwealth Public Sector. This is also evident in the replacement legislation for the Audit Act 1901, discussed earlier. In other words, there are quite significant differences in the business, particular responsibilities and in the exercise of independence between the public and private sectors. As well, the functions, operations and performance assessments are also quite different, notably in the core public sector.

As in the private sector, knowledge and understanding of the client's business are essential to successful auditing and represent a marked comparative advantage. Such an advantage is even more evident in across entity audits and whole-of-government accountability issues. While I consider that some inter-sectoral comparisons are useful for benchmarking particular elements of performance, it is clear that simple overall cost comparisons of public and private sector auditing generally are likely to be misleading. These are difficult issues for both Auditors-General and Parliament.

The ANAO regards performance auditing as core business, and as such, these audits will be delivered primarily using ANAO resources. They tend to dominate the Parliament's interest in our activities, particularly with the Joint Committee of Public Accounts (JCPA), where we have an almost day-to-day relationship. Importantly, it should be appreciated that ANAO resources are and will continue to be supplemented on a needs basis, by private sector people who have particular skills and experience. Over the years, the ANAO has engaged a wide range of expertise from the private sector, including medical practitioners, taxation specialists, construction industry consultants, statisticians and engineers, to assist in particular audits. As well, we will be looking for agency representation on our performance audits not only as a source of intelligence and understanding of an agency's programs and structure but also as a means of personal development for all concerned. Knowledge and expertise can transfer both ways with mutual benefits.

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While I am on the subject of the types of products we deliver it is probably the appropriate time to outline what we have done to ensure their relevance with an eye on current and future changes. One area in which we can learn from the private sector is in being aware of the prime necessity of providing a quality service to client (or our various stakeholders). The ANAO's primary client, as I have said, is the Parliament. We have a strong focus on providing quality services and products to the institution itself, its committees and to individual Members. As well, other stakeholders, including auditees, are also clients. The culture of further developing a client service orientation is something that we in the ANAO are working on steadily.

It must be agreed that for many public sector entities, a culture of client service has not yet been nurtured. There is no doubt that the ANAO has been trying hard to work more closely and supportively with entity staff and managers for some time. Many internal audit units have been doing likewise. This does not mean providing automatically unqualified audit reports on financial statements, or uncritical congratulatory performance audit reports. While few of us really like criticism, there is general acceptance that constructively critical reports can help us do our job better and that recognition of good performance can both reinforce and lift the confidence and morale of those involved. As part of this more client focussed approach, we have come to the view that the ANAO must supply a broad range of audit and audit-related products to be considered really useful to the various entities and stakeholders with which we are involved.

## **Developing an Appropriate Product Range**

Any influence the ANAO has, particularly on performance and accountability, will be largely through its individual products. It is important for our credibility and highly cost effective for us to gain the maximum advantage from the close working relationship and knowledge that we have with all public sector entities through the audit processes. The following is a list of our range of products and services:

- financial statement audits;
- performance audits;
- financial control and administration audits (FCAs);
- assurance and control assessment audits (ACAs);
- direct assistance to the Parliament and its Committees;
- seminars on topics relevant to public sector entities;
- better practice guides and other guidance material on various topics, such as:

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- model financial statements (AMODEL Accounts) for different types of entities;
  - financial statement preparation;
  - the control environment, particularly as it impacts on financial reporting;
  - financial management;
  - managing APS staff reduction; and
  - performance information principles; and
- direct assistance to entities on many of the foregoing topics.

While I am not going to describe each of these in detail I thought it would be useful to discuss briefly our major products, particularly the sort of changes we envisage to performance auditing as a result of the reform process. As well, I want to draw your attention to our two newest products, FCAs and ACAs, our Better Practice Guides and our role in Whole of Government financial reporting. The inter-related nature of the ANAO's product range is recognised as a central part of our overall business strategy.

## ***Financial Statement Audits***

In conducting financial statement audits the ANAO faces difficult decisions about how to cover particular audit clients. From a cost perspective, it would often be very expensive to maintain in-house the expertise needed to audit such entities, particularly where there is a strong identification and/or relationship with the private sector. That is, where the entities are not part of the recognised core of public sector activity. Perhaps more importantly, from an audit effectiveness viewpoint, it would be very difficult to obtain and maintain the necessary experience to conduct such audits well, with a full knowledge and understanding of the industry in which they operate. Private sector firms with the appropriate connections are often able to call on the necessary expertise and background knowledge nationally and internationally as well as being able to maintain that expertise because of their broader client base in particular areas.

Using the private sector in this way does, moreover, provide us with the opportunity to concentrate our own resources on what we see as our core business. Broadly, this is all entities wholly or mainly budget funded. Here we have our own specialist skills, knowledge, understanding and experience of public sector functions and activities. At the same time, we are providing a better service with private sector firms to the more specialised entities, often with limited or no additional budget funding, than we could using solely our own resources. Such a strategic approach ensures that we are not only able to provide the Federal Parliament with the required assurance about overall public service accountability but we also have the necessary degree of

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involvement to do so credibly. The issue is basically about achieving the right balance of such involvement to be effective.

## ***Performance Auditing***

Performance auditing can probably be said to be an increasingly significant element of the audit mandate in most Western countries. Moreover, even in New Zealand, where a separate Audit Commission bids for financial statement audits in competition with accounting firms for business in both the public and private sectors, the performance audit function is conducted by the Office of Auditor-General. The public demands for governments to achieve better value for money, to 'reinvent' and improve service provision, combined with the time being given to improving and reporting reliable performance information, increase the potential value added by an effective external performance or value-for-money audit function.

This is an area which traditionally has received much greater prominence in the media and elsewhere. Performance audits, by their very nature, generate greater debate and controversy than do financial statement audits. This does not mean that performance audits are in any way better or worse than financial statement audits. I would contend that any consolation/affirmation provided by the 'green tick' for performance is just as important for managers as it is in financial audits. In my view, they both play an essential role in the accountability framework within our system of Government and both aim to provide assurance to both the Executive and the Parliament about the efficient and effective administration of public sector agencies.

The main problem seems to be the sensitivity associated with performance audits as they often go to the heart of management practices. However, as we all appreciate, management is not an exact science. This is a shorthand way of saying that there are, legitimately, often differing points of view on the way in which programs can be managed. Because of these views it is incumbent on the ANAO, with the assistance of management, for performance auditors to have a clear understanding of the goals, objectives and priorities of any area subject to audit and that performance criteria/measures are, as far as practicable, agreed 'up-front'. This should be a reasonable expectation in the program evaluation climate that has been built up, particularly over the last five years or so.

The need in the future is to ensure closer co-operation and communication between the ANAO and agencies on performance audits. There is considerable mutual interest in the outcomes. Confidence needs to be promoted in those outcomes for all stakeholders including, importantly, the Parliament.

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Careful presentation may ameliorate the more sensational style of media reporting we have sometimes witnessed which can engender friction and legitimate concern for positive outcomes. We will be focussed on producing 'balance' reports which add value by identifying good or best practice and indicating improvements that can be made from experiences elsewhere.

## ***Audits of Financial Control and Administration (FCAs)***

FCA audits are concerned with improving the quality of the public sector administration by assisting and encouraging agencies to achieve better practices, in areas such as asset management, accounts processing, audit committees, the use of accrual information and debt management.

These audits are intended to assist public sector managers in meeting their responsibilities and to inform the Parliament about aspects of public administration which are not likely to be covered by the financial statement and performance audit products basically because they are not likely to be significant or 'material', or have too narrow a focus, in a single entity context. On the other hand, they can have service-wide ramifications which are of considerable interest.

FCA audits were introduced as a result of a review by the ANAO of the scope and targeting of its audit activities. This review was done in the context of the changing public sector environment, particularly with the increasing devolution of authority, adoption of strategies for the management of risk, changes in financial reporting and enhanced accountability.

However, the decision to undertake these audits was also based on an apparent Parliamentary perception that devolution of management authority under the Public Sector Reforms had not been matched by commensurate evidence of accountability by public service managers. The FCA audit was designed to go some way in filling this 'expectation gap'.

Specifically, the objectives of FCA audits are to:

- provide independent assurance to the Parliament, the Executive Boards, auditee management and to the public on aspects of public administration and control of public funds; and
- identify, develop and report better practice.

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Consistent with the objective of providing assurance, these audits adopt an empathetic approach to improving public administration rather than simply identifying shortcomings or minor matters dealing with administrative processes. The latter is certainly not consistent with the risk management approach being urged by MAB/MIAC<sup>34</sup>. The concern is more about whether appropriate platforms and mechanisms for control have been properly implemented.

As noted earlier, the types of activities this program addresses, while individually not 'material' in many agencies, collectively represent a significant element of public sector administration and account for a significant level of expenditure each year. Essentially, these audits focus on those core, or good housekeeping, activities that are considered vital for good management. These include guidelines, instructions, monitoring practices, systems development, integrity and ethical checklists and audit trails.

These audits are usually undertaken across a selection of agencies, between twelve and fifteen entities. The results form the basis for a view of the Commonwealth Public Service. The results are therefore useful to all agencies: not just those included in the audit. In keeping with this holistic approach, all reporting is generic in nature. However, we do promote individual entity examples of 'better practice'. The approach encourages entities, which might not be at the better practice end of the spectrum, to be involved so that a better appreciation can be gained of what might be involved in moving to that end and the associated benefits and costs. These aspects would be examined in subsequent audits of the individual entities.

While the results of these audits are reported in the normal way to Ministers, departments and agencies, reports to the Parliament are generic in nature in order to provide Members with a good perspective of areas of best or better practice, as well as areas where improvement is warranted. Reports mention by name only those organisations which have demonstrated approaches and practices that might be able to be applied elsewhere.

The tangible outputs at the end of a FCA audit are the publication of a report to the Parliament and a better practice guide. The approach provides a benchmark against which government agencies, service-wide, are able to compare their respective performances and to implement improvements, where considered necessary. Such an indicative benchmark is also useful in later audits to ascertain what, if any, action should have been taken in individual entities. Less than adequate performance could be reported in such audits in the normal way. Such follow-up also alleviates the Parliamentary concern expressed about the generic nature of the FCA audits.

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Two FCA audits have been completed and reported including the concurrent release of a companion better practice guide with each audit report. The output of both audits has been enthusiastically received. They are:

- \_ Asset Management - Audit Report No 27 1995-96.
- \_ Payment of Accounts - Audit Report No 16 1996-97

An audit on Audit Committees is presently in progress following a benchmarking survey of all types of Commonwealth Government agency except GBEs. The results of the benchmarking study was forwarded to all agencies in December 1996. Hopefully this will enable each agency to examine the function and operation of its audit committee in advance of the expected application of the package of legislation to replace the Audit Act 1901 from 1 July 1997. (Under the FMA legislation agencies will be required to establish and monitor an audit committee). The survey should facilitate the creation of an audit committee in these agencies that do not presently have one.

Two other FCA audits covering Financial Management/Use of Accrual Information and Management of Receivables will commence early this year.

## ***Assurance and Control Assessment Audits (ACAs)***

As noted earlier, we have also developed a related program of audits described as assurance and control assessment audits or, simply, ACA audits. The ACA audits will examine basic administrative processes to provide a positive assurance that agencies are meeting their obligations under the legislative framework. They will be concerned only with the financial framework established to support and assist in the delivery of the products and services provided by the public sector. These audits will not assess compliance with legislative provisions governing specific programs. However they will be focussed on the common or core activities of a corporate nature, for example personnel practices, travel and accommodation, minor expenditure, procurement and use of official vehicles. From time to time the coverage of FCA audits is likely to be highly complementary to ACA audits.

They are aimed at providing to the Parliament, and to the entities involved, an assessment of the level of control applied to a range of basic activities in public sector entities. Parliamentarians have regularly expressed concern on such "housekeeping" matters. But, in most instances, reporting on them does not sit well with reporting on the overall financial report of an entity, nor

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would most of the activities have a material effect (as conceived of by accountants and auditors generally) on the financial report.

The ACA audits are a direct reaction to the above concerns, since work of this type has increasingly been excluded from the scope of our basic financial statement audit. They are basically about providing assurance of key controls, not necessarily all controls, in individual entities rather than about identifying better practice across entities as do the FCA audits.

Reporting on these audits will be in association with my annual report to the Parliament on financial audits. The reporting style will be similar to that of FCA reports in that it will be at a generic level to provide a service-wide perspective. However, our management letters will advise entities of any specific matters which may need to be addressed. The concerns are most likely to be about whether the control environment is effective or not, rather than about any relative position against other entities, as is more likely to be the case with FCA audits.

## ***Better Practice Guides***

One audit related product where additional effort has produced widespread benefit is the series of Better Practice Guides. Performance audit reports have previously included better practice guides where lessons learned from an audit of a particular entity have relevance to the wider public sector. Guides separate to the reports are now often produced arising from both financial and performance audits. An integral product of the Financial Control and Administration audit of Asset Management was the distribution of a better practice guide and accompanying 'practical' handbook to all entities. Other financial guides released were Financial Statement Preparation and Illustrative Financial Statements. I referred earlier to the guide on Performance Information recently prepared jointly with the Department of Finance.

A comprehensive guide to entities on managing worker's compensation cases is being developed from a performance audit on that topic. Similarly, better practice guides for Management of Corporate Sponsorship, Outsourcing and for Commonwealth Guarantees, Indemnities and Letters of Comfort are well under way. A better practice guide on Managing APS Staff Reductions was produced in advance of a performance audit as it was considered to be of more timely assistance in the current context and more recently we have jointly developed a better practice guide on the principles for good performance information.

## ***Whole of Government Financial Reporting***



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I thought it would be appropriate to spend a little time outlining the ANAO's involvement in Whole of Government reporting. This topic was also covered briefly by Len Early from Finance.

In a paper I presented to the 1996 CPA Congress in Melbourne in October 1996<sup>35</sup>, I went into some detail in discussing the development of accrual statements and their consolidation into whole of government statements. I also raised some conceptual issues and outlined some opportunities for the future. That paper is readily available for those interested in this subject.

What I want to outline today is what the ANAO is doing to assist and facilitate the successful adoption of whole of government reporting as it did for entity reporting on an accrual basis.. I see it as being extremely important that the ANAO is involved directly in the accounting reforms and simply not the auditor after the reforms are implemented. We have a responsibility to participate. For example, we have provided assistance in the introduction of accrual accounting and systems as part of our audit-related services.

As explained earlier, whole of government financial reporting involves preparation of general purpose financial reports consolidating the financial results of all departments, authorities and companies controlled by a government. In the late 1980s, government departments were first required to prepare cash-based financial statements and to incorporate these into annual reports which were tabled in the Parliament. In the early 1990s, accrual reporting was first introduced in Commonwealth government departments and, by 1994-95, all departments had fully implemented accrual reporting even though this was only achieved by processing end of year accrual adjustments.

In 1995 the Commonwealth Joint Committee of Public Accounts issued two important reports. In the first, *Accrual Accounting - A Cultural Change*<sup>36</sup>, the Committee examined the use of accrual reporting and accounting within the Commonwealth and made a number of recommendations aimed at increasing the use of such information.

In the second, *Financial Reporting for the Commonwealth: Towards Greater Transparency and Accountability*<sup>37</sup>, the Committee recommended that the Commonwealth Department of Finance and the ANAO embark upon a series of three trial whole of government financial statements commencing with the 1994-95 financial year, with a view to full adoption of whole of government reporting in 1997-98.

In line with recommendations of the JCPA, the Department of Finance and my Office prepared a trial set of financial statements based on 1994-95

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financial information of Commonwealth entities. The emphasis of the trial was on determining an appropriate form for the financial statements and identifying the best means to obtain the information required for the financial statements from the 200 or so entities to be covered within the Commonwealth. My objective in participating in this, and in later trials, is to ensure that all issues which could result in an eventual qualification of the financial statements are resolved at the trial stage before audited statements are required to be produced.

The trial statements were published, together with an invitation to comment, by 30 September 1996<sup>38</sup>. With slight amendment, they were also incorporated into the report prepared by the National Commission of Audit. The National Commission of Audit strongly supported whole of government reporting, recommending that fully audited statements be available for the 1996-97 financial year<sup>39</sup>.

My Office is currently working with the Department of Finance on the preparation of a second trial set of whole of government financial statements. This exercise is an extension of the previous one in that we will be conducting a trial audit of the trial statements. By this means, we hope to identify and resolve any issues that may threaten a qualification in the eventual official statements.

I hope our involvement in assisting in the development and preparation of whole of government financial reporting is properly seen for what it is: - an obligation to assist in the reform processes in areas of our expertise.

## **Getting Our Own House in Order**

I have talked above about what we do in terms of products and services. We, like other public sector agencies, also need to ensure that our own house is in order through the use of a risk management approach, appropriate performance assessment and by adhering to public sector codes of conduct and our own professional standards.

## ***ANAO Corporate Governance***

The ANAO has a variety of systems and procedures in place to support the management of the organisation. These include a Corporate Plan and vision statement, an Executive Board of Management, organisation strategy, individual business unit plans including our audit strategy, business unit

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committees, continuous improvement groups and a range of performance indicators and supporting management information systems.

Recognising that the ANAO is integral to the changing APS environment, we are finalising a corporate governance statement covering the operations of the ANAO. Also as part of the development of the corporate governance approach, we will be reviewing our risk management strategy, performance indicators and performance measures, code of conduct and professional standards as well as our audit products. These are covered in more detail below.

## ***Risk Management in the ANAO***

Risk management is not just something we preach to other organisations: it is at the heart of our own operations. We have in place a number of safeguards to avoid unnecessary risks.

One field where we have identified significant risks is that of privatisation and, to a lesser extent, corporatisation of public sector entities. These entities operate in commercial activities that are intrinsically more risky than those of most public sector entities. As well, their changing ownership or structure may increase risks at the point of change, at the same time as the level of public interest and scrutiny is likely to come to a peak. We recognise that these risks also create risks for the auditor, and that we must take greater pains than usual, in these cases, to 'get it right'. In many of these instances, we employ major accounting firms as our agents to conduct the audits. The resulting audit opinion, however, is still our responsibility and we apply the procedures set out in the relevant Auditing Standard in the supervision of that work.

With limited resources at its disposal and a huge number of public sector programs within its mandate, the ANAO undertakes a rigorous strategic planning process and risk assessment for the purposes of identifying areas which will be subject to performance audit. Over recent years the ANAO has made a concerted effort to be more open and consultative in the development of its performance audit programs. This involves extensive consultation with all key stakeholders. These include Parliamentary Committees, individual Parliamentarians, Ministers, Ministers' Offices, industry groups and representatives, the community and of course public sector agencies themselves. The ANAO assesses the benefits of conducting a performance audit against a number of criteria and weighs the results of this analysis against the resources it has available. It then undertakes a preliminary analysis or study before finally deciding whether or not to commit resources, and of course those of an agency, to a full performance audit.

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As well as risk ranking our financial and performance audits against a number of criteria, other safeguards we have put in place to avoid unnecessary risks include continuous assurance processes, peer review and an insistence on the maintenance of quality operating standards. This last item is emphasised by the ANAO Auditing Standards, most recently reissued in 1996, which incorporate the Australian Auditing Standards. These standards are discussed in more detail below.

## ***Assessing Our Performance***

The ANAO itself does not, and of course should not, escape performance measurement. We are currently working on the development of better performance information for ourselves. In this way the ANAO has a realistic understanding of the problems that agencies are facing in this area. However difficult, it is important both for improved management and accountability and is not discretionary. There are no dispensations.

Some of the recent initiatives being pursued by the ANAO in an effort to improve its performance information include:

- reviewing our indicators to ensure that they are linked to our revised corporate plan; and
- introducing a number of surveys to measure the impact and value of ANAO products. These surveys are being conducted at three levels to capture the views of our major client groups, as follows:
  - we have surveyed Ministers and Members of Parliament late last year;
  - we regularly survey program managers in agencies across the Service; and
  - the ANAO also has benchmarked its performance against that of other audit agencies and has implemented arrangements for the conduct of peer reviews involving other public sector agencies and private sector accounting firms.

Given that the ANAO's corporate goal is to improve (add value to) public administration, the key indicators of our performance centre around measuring the quality and impact of our products. This measures, which are by no means perfect, should provide a good base for measuring/assessing our actual performance in relation to audit outcomes for improving our indicators in the future. In that respect, I noted a recent independent private sector survey<sup>40</sup> of Western Australian Members of Parliament determined an

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overall performance index rating for their Office of the Auditor-General. Such an index could be particularly useful to determine trends over time.

## ***Code of Conduct and Professional Standards***

While the ANAO is bound by professional standards of conduct, we have seen the value of having a Code of Conduct for the Office that would recognise both our professional and public sector involvement. It is an integral part of our management framework based on values that underpin legal and standards imperatives. Development of such a code was delayed until the MAB/MIAC report on 'Ethical Standards and Values in the Australian Public Service' was finalised. This was seen as providing the conceptual framework for ethical conduct. As the report itself notes:

*To inculcate an ethical culture and understanding fully, agencies need to provide complimentary (my underlining) guidance to their staff, which is in line with APS standards but which relates directly to the work undertaken by the agency and the ethical issues which arise from it.<sup>41</sup>*

Another way of monitoring and controlling our risks is to be very aware of relevant standards and involved in the process of setting standards. The ANAO maintains an involvement in the standard setting process for both auditing and accounting standards by providing comment to the relevant standard setting Boards on exposure drafts for new or revised standards that are relevant to our operations. On occasion, we also comment on areas in standards that we consider particularly need to change. These standards regulate what matters should as a minimum be publicly reported, and the manner of that reporting, in a financial context, and how auditors should test the explicit and implicit assertions made by the preparers of financial reports.

The ANAO is also willing to participate more directly in the standard setting process. For example, Bill Nelson, the National Business Director of the Financial Audit Business Unit, was recently appointed to the Public Sector Accounting Standards Board of the Australian Accounting Research Foundation. That Board issues Accounting Standards that relate peculiarly to the public sector and, in conjunction with the Australian Accounting Standards Board, issues joint Standards that apply to both the public and private sectors.

In the field of Commonwealth activity, the ANAO's past activity has been strongly supportive of Accounting Standards and underlying Statements of Accounting Concepts as the appropriate framework for public sector reporting. The ANAO supports, for example, the policy of reporting separately against compliance with Accounting Standards and compliance

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with legislation on the exceptional occasions where there is a clash between the two sets of requirements. The Commonwealth Department of Finance has also, in the past, been consistently supportive of the application of Accounting Standards.

Internationally, the ANAO chaired the Auditing Standards Committee of the International Organisation of Supreme Audit Institutions (INTOSAI) for almost a decade until mid 1995 and still retains its membership. Such involvement reflects the level of the Office's commitment to high professional standards in audit and accounting and the need to have the capability necessary to ensure our professional obligations can be met in all our audits.

## V. Concluding Remarks

Many public servants are probably getting somewhat tired of hearing about the need to change and adopting a different culture of public service. However repetitive the lectures and seminars seem, the imperatives are real and demand our attention and commitment. Our governance systems and the relationships between the public and private sectors are reflecting developing community expectations about the role and performance of government and its supporting bureaucracy. As well, they indicate a growing understanding of the interrelationships not only between those sectors but also with the rest of the world. Telecommunications has largely overcome the tyranny of distance. Consequently we are more exposed to the competition of the international environment and need to ensure both sectors work together in the national interest to minimise costs and maximise performance. Therefore the focus should be on how best to use available expertise and resources for the benefit of all Australians.

From a public sector viewpoint, there has been a growing realisation of the impact of the legislative framework in promoting rather than discouraging initiative, drive, determination and commitment. The simple message is flexibility rather than regulation. The catchcry has been 'let the managers manage'. But the basic message applies to all of us. It is not confined to management. Nor is the commensurate requirement for accountability for results. The move towards the greater use of the private sector for service delivery and the adoption or adaptation of private sector management approaches does raise issues about the nature of accountability and where it resides. The situation in Australia does not suggest the following outcome is likely:

*The potential incompatibility of increased flexibility with  
parliamentary accountability ... provides agencies and*

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*departments with a rationale for attempting to limit the scope of the parliamentary watch-dogs.<sup>42</sup>*

At least the thrust of the new audit legislation would suggest otherwise. Nevertheless, it does point to the need to be vigilant in the seemingly inevitable confusion of means and ends and narrow interpretations of what results are required or, indeed, of just what risk management means in practice.

In the public sector we do have particular concerns for national security, individual privacy, fairness, honesty and equity as a public obligation. This fact needs to be widely appreciated even if not fully understood elsewhere. Transparency and openness largely illustrate the degree of difference between the public and private sectors in areas of mutual concern. Indeed, difficulties can emerge where judgements have to be made about public versus private interest. These are the realities of the delivery of public sector services which are central to considerations of any politically credible accountability framework.

There is no doubt that the public service is currently facing considerable pressures, particularly against the background of a continually changing environment. Such demands leave us with no alternative but to enhance accountability and improve our performance if we are to maintain our reputation as a professional public service. One approach, which would assist in these regards, is to learn from and adapt the principles of private sector corporate governance to the public sector. Elements of that approach are being used to varying degrees by a number of departments and authorities but generally not as effectively as the more coordinated and integrated framework of overall management that has been developed by many private corporations particularly over the last five years or so. The interest shown recently by many public sector entities is indicative of their positive attitude towards such change.

I have outlined the approach the ANAO is taking to work cooperatively with our clients, while maintaining our independence, to assist in moving towards a best practice public service. These are not incompatible objectives as some have suggested. To the contrary, they are far more likely to lead to better audits. There is no question that the audit function lends itself to the criticism that it focuses on individual mistakes. This is simply because of the very nature of our work and the fact that our reports are made to the Parliament and are therefore in the public arena. Our intention is to concentrate on what we can learn from any mistakes or other failures or deficiencies. Therefore our emphasis will be on gain not blame. This should result in a WIN-WIN situation for all parties which is a substantial incentive to engage in positive dialogue and to provide required information.

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The ANAO has and will continue to play a key role in providing assurance to the Parliament, Executive Government and entity management about appropriate accountability in the APS. That includes, importantly, achievement of program objectives in a cost effective manner including a greater client service orientation. The ANAO will therefore be placing even more emphasis on identifying areas of better practice, as well as noting where, in our opinion, improvements can be made to program service delivery and/or are necessary for good management. The breadth and depth of the audit mandate and products are essential to this role. Our credibility and effectiveness depend on the close relationship with, and understanding of the functions of, all Commonwealth entities and their operations. Often the ANAO is simply a conduit, and hopefully a catalyst, for better practice that is being demonstrated already within the public sectors in Australia or even overseas. In other circumstances, such as with the implementation of accrual accounting, reporting and budgeting, the Office relies more on its own professionalism and expertise.

Ultimately the ANAO , along with the rest of the APS and those affected by what it does, are strongly interested in ensuring a best practice public service. As Denis Desautels, the Canadian Auditor-General said: *'For public servants, the challenge is to continue to innovate, to remain motivated and enthusiastic about serving the public interest...'*<sup>43</sup> I can only agree with that statement even if many consider that there is little evidence of their being valued. Unfortunately, recognition of performance and individual contributions has often not gone with the territory. Public service managers should be leading by example. I cannot think of a more effective way to encourage accountability for performance. Perhaps that is the right note on which to finish.



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