

**Risk Management Institute of Australia  
Australasian Compliance Institute**

**2<sup>nd</sup> Annual GRC Conference**

**Public Sector Management –  
a scorecard on the journey**

**Melbourne  
1 November 2013**

**Ian McPhee, PSM  
Auditor-General for Australia**

## Introduction

Generally speaking, Australians as individuals are optimistic. We may sometimes get down about the state of global or national affairs but studies have shown that ‘private optimism, about our personal future, remains incredibly resilient.’<sup>1</sup> Social scientists refer to this disposition as the optimism bias.

Optimism bias shows up in surveys of newlyweds – that in spite of the statistics on divorce, their marriages will last forever, in surveys of smokers – where they believe they are less at risk of developing smoking related diseases than others who smoke<sup>2</sup> and, closer to home, in my belief that 60 is the new 50!

This is generally a good way to be in our personal lives. Indeed it has been said that ‘Even if that better future is often an illusion, optimism has clear benefits in the present. Hope keeps our minds at ease, lowers stress and improves physical health.’<sup>3</sup>

Optimism is also an asset for those with leadership responsibilities. Effective leaders not only have a vision for the way forward but will inspire the confidence that is required to take advantage of opportunities that are available to advance the organisation – to show the way forward with confidence in spite of the obvious challenges.

Optimism is also a necessary ingredient for auditors-general – to believe they can make a difference; to understand that despite some occasional tensions with public sector agencies, or indeed ministers, the short-term pain is worth the long-term gain in performance improvement for the public sector and outcomes for the nation’s citizens.

So far then, optimism appears to be a winner in our lives. And it is, provided in making key decisions, it is tempered by logic – by a clear vision and realistic assessment of what is attainable. In the absence of a disciplined approach to testing the underlying fundamentals for any significant undertaking, including the risks to delivery, an optimism bias is likely to result in sub-optimal outcomes, wasted resources and dented reputations. For this reason, it is important to apply some healthy scepticism to assessments when decisions carry significant consequences – the work of the ANAO in the public sector certainly underlines this point.

Warwick McKibbin put it this way:

‘Uncertainty and risk management should be at the core of all policy design. The correct question should not be how good a policy might

---

<sup>1</sup> Sharot Tali 2011. *The Optimism Bias*. Article found at <http://www.time.com/time/health/article> 28 May.

<sup>2</sup> See [http://en.wikipedia.org/wiki/Optimism\\_bias](http://en.wikipedia.org/wiki/Optimism_bias), p.1, and McPhee, Ian 2011. *Effective Risk Management*. Presentation to the Department of Parliamentary Services, Canberra, 17 February. p.3

<sup>3</sup> Op.cit., Sharot Tali

be in the best possible world, it should be what can go wrong if the world turns out differently to that assumed.’<sup>4</sup>

While the public sector is experiencing a period of more constrained resources, public sector organisations still need to invest in the organisational capability that will shape policy options to deal with emerging issues, assess the impact of existing programs in achieving their objectives, and enhance delivery models. It would be a mistake not to provide the headroom – in terms of budget cover and capacity – to pursue the strategies that will be required in the years to come, accepting that the rate of investment may at times need to be less than ideal given other demands on budgets. We need to remain open to new ideas and approaches that offer the prospect of better outcomes. And in discharging these responsibilities, we need to be hard-nosed, disciplined and focussed. This is where experience shows that more scepticism than optimism should be applied.

In my presentation today I have been asked to provide a perspective on how Australian Government agencies stack up when it comes to governance, risk and compliance practices. In doing this, I will draw from the work of my office, but also from other national and international perspectives which signal opportunities for improving national outcomes and public sector performance.

## **The Australian Government public sector**

More is being expected of governments today, but there are limitations on what governments can afford to deliver.

The heavy lifting rests on the shoulders of ministers – to assess when government intervention is required, to present and explain the policies of the government, and to see that announced policies are delivered. Hand in glove, the public sector role is to provide sound advice and support and deliver on the policies of the government, consistent with public sector values. As previously flagged, the public sector also has a responsibility to be investing in the capability to deliver on the policies Australia is likely to need beyond the near term.

By way of background, the Australian Government public sector is a large and diverse grouping of entities with a common purpose of fulfilling the Commonwealth’s constitutional responsibilities and advancing the national interest consistent with the policies of the government of the day. Currently there are some 261 Australian Government entities<sup>5</sup> that include the departments of state, statutory authorities and companies. Those entities in the General Government Sector are expected to account

---

<sup>4</sup> McKibbin Warwick 2013. *Expect the unexpected in creating climate policy*. Article in the Australian Financial Review, 24 April. p.43

<sup>5</sup> These are entities controlled by the Australian Government which are required to have their financial statements audited by the Auditor-General. See also ANAO *Annual Report 2012-2013*, p2

for revenue of \$379.9 billion and expenses of \$401.5 billion in 2013-14, giving a net operating balance of -\$21.5 billion.<sup>6</sup>

Government today is dynamic:

- There are global and national influences which may necessitate adjustments to policy settings to ensure the well being and security of the nation
- There are the global and national trends in public sector management that are seeking a stronger performance from the public sector in a tighter fiscal environment, and
- There are the public services to be delivered day in, day out.

Tony Blair, former Prime Minister of Great Britain and Northern Ireland, in reflecting on what he learned in office about the role of government, commented that:

‘Despite partisan divides, 21<sup>st</sup> century politics is, in fact, increasingly post-ideological. The biggest challenges we face are similar in most countries: growing our economies in a way that creates opportunities for everyone, providing high-quality health and education services, ensuring safety and security. And in most cases, the best solutions are already known. So the challenge for political leaders is no longer just about knocking down your opponents’ arguments; it is about building up a system of government that delivers results.’<sup>7</sup>

Amongst his lessons were: think big, apply rigorous analysis, and don’t be afraid to learn from the successes and failures of others.<sup>8</sup>

Success in government depends on sound governance including with respect to decision making, communication of decisions to ensure that the executive organs of government are tuned into the central policy and operational priorities and marching to the same tune, and monitoring policy implementation performance and adjusting where required.

Public sector administration has become more business-like in the last 25 years, with broad support across the parliamentary spectrum. Over the years we have seen devolution of authority to line agencies from central agencies, a stronger focus on governance and risk management, variations to legislative budgetary and administrative frameworks designed to achieve a stronger focus on outcomes, accrual budgeting and accounting to provide better information for decision making, some

---

<sup>6</sup> Secretary to the Treasury, and Secretary of the Department of Finance and Deregulation, 2013. *Pre-election Economic and Fiscal Outlook 2013*. Canberra. August. p.10

<sup>7</sup> Blair, Tony 2012. *Leading Transformation in the 21<sup>st</sup> Century*. Article in ‘Government Designed for New Times – a Global Conversation’. McKinsey and Company. pp.10-11

<sup>8</sup> Ibid

consolidation of public sector bodies, and a stronger people focus – the goal being stronger performance by the public sector and a stronger accountability regime. While the changes are generally viewed as being incremental, some periods have been more intense than others; and, occasionally, the reform pendulum has swung too far requiring subsequent recalibration.

We have gone through the slogans of the eras – ‘Letting the managers manage’, ‘Making the managers manage’, ‘Sharpening the focus’ etc. Many would still accept, though, that still more could be done to enhance organisational and administrative arrangements within the Australian Government public sector, and to reinforce the importance of pursuing opportunities to drive public funds further in a tight fiscal environment. While it is not possible to future-proof the state, there are certainly opportunities for the public sector to enhance its performance and play a stronger role in supporting government and our institutional arrangements.

We are, however, working from a reasonable base, as observed by the Australian Public Service Commissioner in his most recent State of the Service Report.<sup>9</sup>

## State of the Service

Each year the Public Service Commissioner provides an annual report on the state of the Australian Public Service. In his most recent report (2011-12), informed by the results of a census of APS employees, the Commissioner observed, amongst other things, that:

- Employee engagement remains high in the APS, higher than in the United Kingdom Civil Service and slightly higher than in the preceding year. Employees are generally highly motivated, proud of what they do and respect their immediate managers.<sup>10</sup>
- Technology is increasingly being used to drive internal efficiencies and productivity within the APS. Most agencies have developed web-enabled procurement, document management, travel and other corporate facilities, while the use of video-conferencing is increasingly driving down the costs of internal collaboration and training.<sup>11</sup>
- Employees continued to report mixed views about the scope for, and value assigned to, innovative thinking and new ideas in their agencies. Management attitudes and their unwillingness to take risks were highlighted as barriers to implementing innovation.<sup>12</sup>

---

<sup>9</sup> 2012 *State of the Service Report: State of the Service Series 2011-12*. Commissioner's Overview. 29 November.

<sup>10</sup> Ibid., p.3

<sup>11</sup> Ibid., p.4

<sup>12</sup> Ibid., p.4

- Leadership has been singled out as a key issue for attention in every review of the APS since the Royal Commission on Australian Government Administration in the mid-seventies. This is partly a reflection of the fact that the external environment continually evolves. Census results also continue to confirm APS leadership is perceived by employees to need improvement.<sup>13</sup>
- The Advisory Group that prepared the APS Reform Blueprint received feedback, including from ministers, that the APS has become too short-term and too reactive in its thinking, and needs to strengthen its strategic policy capability and delivery and implementation skills, its links to academics and other thinkers, and its creativity.<sup>14</sup>

Organisational capability in addressing the issues of today and tomorrow have been the focus of a program of structured reviews that are assessing the capability of portfolio departments and several large agencies. The reviews which are instigated by the Public Service Commission do not seek to second guess an agency's strategy or government policy or priorities, but instead look at systems, processes, governance and culture to understand whether these are best aligned to achieving the agency's strategic objectives over time. As a result of this process, strengths and areas for development are identified, and each agency takes ownership for developing and delivering strategies to improve its capability.

The findings of these structured reviews to date indicate that the APS has particular strengths, especially with the commitment of its people and their capacity to respond to the government's agenda. Some consistent themes arising from these reviews include:

- Leadership – the two leadership challenges identified are leading organisational change and developing capabilities and skills of employees.
  - some agencies are failing to deliver on formal change initiatives due to poor upfront planning, the reasons for change not well communicated, responsibility for change initiatives not clearly assigned or agreed, and a lack of momentum to drive change through to completion.
  - early indications of the reviews show that responsibility for management and decision making is moving further up the hierarchy, which may suggest there is insufficient delegation to executive level staff or there are issues with capability.<sup>15</sup>

---

<sup>13</sup> Ibid., p.5

<sup>14</sup> Ibid., p.6

<sup>15</sup> Australian Public Service Commission 2012 – *State of the Service 2011-12*, Chapter 10 *Organisational capability*, p.222

- Strategy – a gap between some agencies’ strategic plans and operational business plans has been identified. In addition, some agencies could use stakeholder management strategies and methodologies more systematically.
  - this is showing up as a lack of clarity for employees and, in some cases, external stakeholders on how long term objectives will be achieved and what the agency’s long and short-term priorities are, business units failing to respond to shifts in policy or environmental changes exposing them to risk, and achievement of outcomes not evaluated resulting in lost opportunity for improvement.<sup>16</sup>
- Delivery – this has been assessed as one of the stronger areas of capability in the agencies reviewed, in particular innovative delivery. These findings are, overall, consistent with the findings of the 2012 employee census which found that the most significant administrative innovations in the APS last year involved aspects of service delivery.
  - nevertheless, planning, resourcing and prioritising is an area of weakness for some agencies with a lack of clear baselines provided by plans, lack of KPIs on which to base designs and a limited analytical capacity to support decisions.<sup>17</sup>

These are valuable insights. And they are showing up some weaknesses in the capacity of public sector agencies to anticipate and plan for changed environmental circumstances, and policy changes that may be required as a result. And this is occurring at a time of fiscal constraint, underlining the importance of sound governance and strategic planning approaches to nevertheless provide agencies with the capacity which is critical to delivering on charter responsibilities in the longer term.

It is perhaps worth observing in this context, that while government and the community is entitled to expect sound performances by government agencies, this is most likely to be the outcome when the responsible minister(s) is engaged on key initiatives being pursued by his/her agency. The take-out message here is the comfortable flow of ideas and decisions between agencies and ministers facilitates the implementation of reforms and new policies. When transformational change is in prospect, ministerial involvement is paramount. This point was made very clearly by the UK Parliament Public Administration Committee in its recent report on UK Civil Service reform when the Committee stated:

---

<sup>16</sup> Ibid., p. 224

<sup>17</sup> Ibid., p.226

‘Unless change is clearly heralded and given high profile leadership by a united team of ministers and senior officials, it is bound to fail.’<sup>18</sup>

## International perspectives

An international perspective on central government in Australia was given in a study by the OECD<sup>19</sup> in 2012 which sought to identify new developments that are leading to better value for money: better services at lower costs for taxpayers.

Australia has been well regarded as a model for public sector reform. The study by the OECD commented that Australia had, in the 1990s, gone further than any other of 12 leading OECD countries<sup>20</sup> in the implementation of New Public Management reforms; and that Australia has benefited more than other countries from the positive results of these reforms. Reference was made to our budgeting processes (top down, medium term expenditure framework, generally effective Cabinet committee processes, seeking offsetting savings for new initiatives), the outcome focus in budgeting, accrual accounting, and a trend to more horizontal and vertical integration.<sup>21</sup> There were, however, some negative consequences of the reforms in Australia which the study suggested needed to be rebalanced, including:

- a more consistent division of tasks between levels of government: by demarcating domains of service provision in which the states are the primary responsible layer of government from domains in which the Commonwealth government is the primary responsible layer of government;
- vertical integration: better use of executive and professional expertise in policy development;
- horizontal integration: process sharing among agencies and the merging of agencies; sharing of support services or the merging of support service units;
- stricter standards of operational management, as currently differences across agencies in terms of support services make it difficult to move quickly to establish shared service arrangements;
- separation of financing of agencies (which can be based on rules for the fixed and variable costs of the agency’s required production capacity in light of the estimated needs for its services) from steering and control of outputs.<sup>22</sup>

---

<sup>18</sup> UK Parliament, House of Commons, Public Administration Committee, 2013. *Truth to power: how Civil Service reform can succeed*. Found at [www.publications.parliament.uk/pa/cm201314/cmselect/cmpubadm](http://www.publications.parliament.uk/pa/cm201314/cmselect/cmpubadm)

<sup>19</sup> OECD, 2012. *Value for Money in Government: Australia 2012*. OECD Publishing

<sup>20</sup> Ibid., p.3. The 12 leading OECD countries listed are Austria, Canada, Denmark, Finland, France, Ireland, the Netherlands, New Zealand, Norway, Spain, Sweden, and the United Kingdom

<sup>21</sup> Ibid., pp 10, 11

<sup>22</sup> Ibid., p 12



These observations by the OECD are directed to the various government-wide frameworks and arrangements that influence public sector performance.

Beyond the perspective of the OECD study, there are a range of other international influences on public sector management which offer the potential for better outcomes and/or more efficient delivery methods in Australia.

Most interesting is the work of Jocelyne Bourgon, a Canadian who is now a highly regarded academic, whose work has been building on new trends in policy development and public administration internationally. Bourgon has observed 'that the role of government extends beyond what it can do on its own and incorporates what it can do with others to serve the collective interest. Its role extends to leveraging the power of others across all facets of society and enabling synergies by working across boundaries inside and outside government.'<sup>23</sup>

In this context, Bourgon has suggested that the traditional 'emphasis in government on compliance and performance needs to be complemented with a focus on emergence and resilience.'<sup>24</sup>

Dr Peter Shergold, former secretary of the Department of Prime Minister and Cabinet, has made it clear that he considers the challenges the public sector faces 'requires a different type of public service, not just an improved version of what already exists.'<sup>25</sup> While being a supporter of 'joined-up government', 'citizen-centred engagement' and improved 'customer service', his concern is that such initiatives have been conceived too narrowly.

Dr Shergold believes that:

'Australia needs to rebuild and rearticulate the structures of democratic governance, recognizing that it requires greater collaboration between the public sector (on the one hand) and the private and community sectors (on the other). New forms of partnership are required to provide public benefit in unexpected ways and, in the process, to revitalize participatory engagement of citizens in the life of the nation. To achieve these goals the operation of public services (collectively) and the role of public servants (individually) will have to be transformed.'<sup>26</sup>

---

<sup>23</sup> Bourgon, Jocelyne 2011. *A New Synthesis of Public Administration – Serving in the 21<sup>st</sup> Century*. University of Waterloo, Canada. p.46

<sup>24</sup> Ibid., p.46

<sup>25</sup> Shergold, Dr Peter 2013. *My Hopes for a Public Service for the Future*. Article in the Australian Journal of Public Administration vol 72, no 1, p.8

<sup>26</sup> Ibid., p.9

A different perspective again is given by Malcolm Prowle who has suggested, in the context of the United Kingdom, that ‘we need to think radically about how public services can be managed and funded’.<sup>27</sup> His list of things to consider include:

- are there situations where the state can withdraw from delivering and/or funding certain activities and leave it to private individuals (eg leisure, culture and sport)?
- are there universal public services that should be converted to targeted services, whether that targeting be in terms of need, income etc?
- to make certain public services (eg preventive services) more effective, does the state need to become more authoritarian (eg does it make sense for planning law to allow a fast food restaurant to be built adjacent to a school full of obese pupils)?
- do we need to significantly extend the charging regime for public services (eg waste disposal)?<sup>28</sup>

We can expect to see these influences, derived from a greater emphasis on co-production and contestability, to shape Australian Government program design and delivery methods in the future. This will place a greater emphasis on agency engagement with communities, industry and the non-government sector going forward. Necessarily these developments will also influence agency governance arrangements, introducing new opportunities to achieve better outcomes but also changing risk profiles.

## An ANAO perspective

My office has a different perspective again on the public sector provided by a broad statutory mandate to audit all Australian Government controlled entities and to conduct performance audits of all entities, other than GBEs where we may be requested by the JCPAA to undertake an audit. We have also recently been given the authority to undertake audits of Commonwealth partners – Commonwealth contractors and also state and territory agencies that receive Commonwealth funding for a particular purpose – where an audit is requested by the JCPAA, allowing the performance of Commonwealth funded programs to be assessed from end to end.

In discharging our responsibilities, we gain a reasonable insight into those parts of the public sector that are generally managed well and those areas where the risks are elevated if the stars don’t align.

In broad terms, the public sector does well in terms of:

---

<sup>27</sup> Prowle Malcolm 2013. *Where now for public Services?* Presentation to CIPFA Conference 2013. Found at <http://opinion.publicfinance.co.uk/2013/05/where-now-for-public-services/>

<sup>28</sup> Ibid

- Frameworks (policy, administration)
- Big ‘events’
- Public Sector reform – early adopter/adaptor
- Information technology – early adopter
- APS Values/Culture/Collegiality

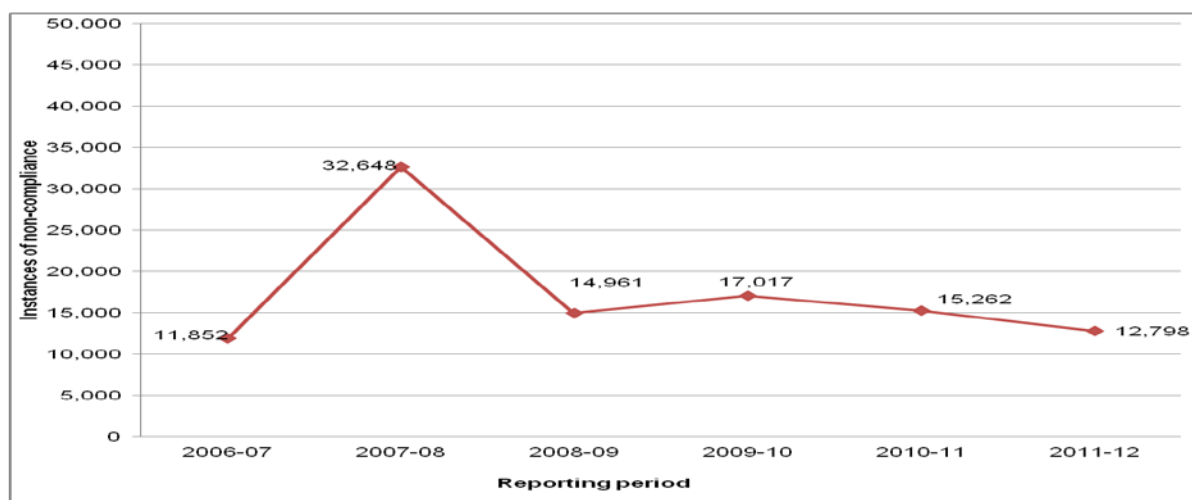
The softer areas in administration tend to be in respect of:

- Performance measurement for programs and outcomes
- Challenges in creating incentives for strong performance
- Policy/systems’ implementation, particularly under pressure
- Gaining from the experience of other APS agencies
- Soft skills (people leadership and management)

We all appreciate that better outcomes and improved productivity only come about through change – in other words, ‘no change’ is generally not an option. In this context, there is considerable experience and goodwill in the APS for agencies to draw on when it comes to informing themselves of better practice approaches.

We also need to continue to reinforce the importance of public sector agencies complying with applicable legislation and government policy requirements. Each year the Department of Finance and Deregulation analyses certificates provided by the chief executive officers of agencies subject to the *Financial Management and Accountability Act 1997* on their performance in complying with the financial management framework. The following table shows the instances of non-compliance over the six years to 2011-12 with most breaches relating to agencies not satisfying requirements in relation to the expenditure of public money; and the banking and investment of moneys.

#### Instances of non-compliance: trends over six years



Source: Department of Finance and Deregulation 2011-2012 Certificate of Compliance Report to the Parliament, p.6

## Areas for attention highlighted by our reports

The reports of my office contain useful insights for those charged with governance responsibilities in public sector agencies. The messages are clear enough. Three reports, in particular, capture the impact of the failure of public sector agencies to perform effectively:

- Regional Partnership Program (Report 14 of 2007-08)
- Green Loans Program (Report No 9 of 2010-11)
- Home Insulation Program (Report No 12 of 2010-11)

The reports collectively highlight the impacts of poor governance, poor visibility of program performance to executive management, poor risk management and processes and the sometimes devastating effect these circumstances can have on outcomes announced by governments, and the equitable treatment of citizens, industry and community organisations. To say the least, the administration of the programs covered by these reports did not reflect well on the reputation of the Australian Public Service for effective service delivery. Nevertheless, there is much to be learnt by public sector managers from the experiences of the responsible departments.

A common aspect of each of these reports concerns governance and risk management – the importance of those charged with governance and managers being alert to changes in the severity of known risks, and for ‘new’ risks which require management attention. Perhaps one of the best international examples of the importance of not being too optimistic that significant risks have been effectively identified and calibrated was a quote by Rick Buy, Executive Vice President and Chief Risk Officer, Enron, in a publication in 2000 by Arthur Anderson:

‘A rattlesnake may bite us every now and again, but we knew it was there and how much it might hurt.’<sup>29</sup>

As we know, neither Enron nor Arthur Anderson has survived. This may be the right place to mention that optimism research shows that ‘pessimists actually see the world more accurately than optimists’<sup>30</sup> so the message is when decisions carry serious consequences, wind up the level of scepticism. Of course, wisdom is required to understand those circumstances when some healthy scepticism is beneficial, while appreciating the importance of leaders addressing the world optimistically.

In his valuable report on a review of corporate governance in UK banks and other financial industry entities, Sir David Walker identified the importance of focusing on risks ‘where past experience is an uncertain or potentially misleading guide’<sup>31</sup>. This

---

<sup>29</sup> Buy Rick, 2000. See Deloach, James W, Partner, Arthur Anderson, 2000. Executive Briefing: *An Executive Summary of Enterprise-wide Risk Management. Strategies for linking risk and opportunity.*

<sup>30</sup> *Optimism in Teams and Leadership.* Article found at <https://www.teams-and-leadership.com> p.1

<sup>31</sup> Walker, Sir David, 2009. *A review of corporate governance in UK banks and other financial industry entities.* London, UK. 26 November.

report has a strong analysis of the differing nature of risks in the financial sector, making the point that the ‘distinction between the management and control of known financial risks and the identification and monitoring the current risks, including new risks, in a potentially fast-changing market environment has major relevance for how a board of a major bank (and, proportionately, any other banking or financial institution) organises its risk oversight activity.’<sup>32</sup>

The report recognises that in the past ‘these two different areas for focus have in many banking or financial institutions been covered by the audit committee, though there is an increasing pattern of organisational separation through the creation of board risk committees’.<sup>33</sup> And that this ‘seems a welcome development in particular in the light of recent experience, much of which can be characterised as marking a failure by boards to identify and give appropriate weight to risks on which they had not previously focussed and which were not therefore captured in conventional risk management, control and monitoring processes.’<sup>34</sup>

While Sir David Walker’s report was focussed on the banking and financial institutions, there is an issue for public sector agencies to ponder here about their organisational arrangements and capability to pick up on the identification and measurement of risks where past experience is an uncertain or potentially misleading guide – areas where past audits have highlighted blind spots for public sector agencies. This risk is also potentially higher for those public sector organisations where audit committee members are not always ‘board’ members – which is generally the case for departments and agencies that are charged with the implementation of new government policies.

While our reports in the last couple of years have not highlighted issues of the scale and severity of the earlier mentioned audit reports, we continue to see programs implemented with limited governance oversight and without drawing from the wider APS experience. Unfortunately, when a department’s administration is not effective it is commonly a member of the public, community group or business that is affected adversely. This should be a powerful reason for public sector agencies to continuously assess the effectiveness of their program management approaches.

Apart from reviewing individual ANAO reports for subject matter specific insights, it is also instructive to analyse the focus of our recommendations in the last two financial years (2011-12 and 2012-13) to gain an understanding of common areas of public administration where our work shows that agencies can do better. The leading categories of recommendations focussed on issues concerned with:

- deficient program effectiveness measures (48% of reports)
- ineffective identification of risks (22%)
- ineffective monitoring of risks (18%)

---

<sup>32</sup> Ibid., para 6.8

<sup>33</sup> Ibid., para 6.10

<sup>34</sup> Ibid., para 6.10

- lack of adherence to the grants policy framework (18%)

Agencies were in tune with our thinking, agreeing to 99 per cent of our recommendations in 2012-13; one percent of recommendations were agreed with some qualification. While this is a positive outcome of our work and is a solid indicator that improvements in public sector administration will ensue, we need to be careful not to walk to the winner's circle too early. A couple of reports<sup>35</sup> we have done this year to follow up on agencies' implementation of agreed recommendations suggest we need to be careful of optimism bias in presuming implementation action follows in a timely manner after agency agreement.

The results of these two audits showed a variable departmental performance. Most disappointing was the performance of the Department of Defence where the audit highlighted issues concerning:

- closure of the implementation of recommendations within specified timeframes (average time to complete recommendations was approximately 400 days, which was on average 175 days later than the management agreed completion date);
- a significant proportion of our recommendations, reported as implemented by Defence, were assessed as not being adequately implemented in the follow-up audit;
- the monitoring of audit recommendations, and reporting to the Secretary and Chief of the Defence Force, by Defence's audit and risk committee has not been a priority; and
- there have been no consequences for responsible officers and Defence groups for not implementing recommendations in a timely manner.

Most significantly though, by not implementing agreed audit recommendations, Defence was foregoing opportunities to enhance its performance. To its credit, Defence has advised it had taken early action to implement a more responsive regime to respond to ANAO recommendations.

More broadly, periodic reviews of management approaches and results are a positive recognition that organisations appreciate the world does not stand still, and there are always opportunities to modify current strategies and organisational arrangements to achieve better outcomes.

In this vein, it was a positive development when the Department of Finance and Deregulation published a discussion paper to promote consultation and stimulate

---

<sup>35</sup> ANAO Report No 25 of 2012-13 *Defence's Implementation of Audit Recommendations* and ANAO Report No 53 of 2012-13 *Agencies' Implementation of Performance Audit Recommendations*

public discussion ‘to fundamentally reconsider the financial framework’<sup>36</sup> through the Commonwealth Financial Accountability Review.

The ANAO provided various submissions to the Department of Finance and Deregulation to inform its deliberations. We saw the most pressing priorities as the following:

- Improve cross-agency delivery of government policies/programs
  - The work of my office has recognised we are living in a more networked world, and has been pointing out some of the challenges in working across boundaries, and the way forward, in audit reports over the past 5 years
    - This includes the way the Commonwealth and the states/territories combine to achieve agreed objectives
  - It is noteworthy that Dr Shergold has also commented ‘If I had my time over I would spend more of my energy on tackling the continuing vertical divisions of public services.’<sup>37</sup>
- Improve the quality of resource management, particularly performance information, and the performance focus of government programs
  - Our work continues to highlight there is still much to be done to enhance Key Performance Indicators so that they aid decisions about the extent to which programs are having the intended impact. Too often departments inform government about the benefits of new policy proposals in unequivocal terms; and yet, when it comes to assessing performance, they revert to measuring outputs rather than both outputs and outcomes. The presumption that the public sector reforms would deliver a stronger accountability for performance is not so evident here.
  - We need to focus on what is really having an impact in achieving the desired policy outcomes rather than just the dollars and the outputs.
  - Further, Australia has fallen off the back of the wave when it comes to the evaluation of government programs,<sup>38</sup> and this has also detracted from the emphasis that needs to be given to both KPIs and program performance. Positively, the current Secretary of the Department of Finance and Deregulation has indicated that ‘procedures for evaluation and

---

<sup>36</sup> Department of Finance and Deregulation, 2012. *Is Less More?* Discussion Paper. Foreword by David Tune, Secretary, March

<sup>37</sup> Op. cit., p.11

<sup>38</sup> For a perspective on the history of evaluation in the APS, see Mackay Keith 2012. OECD 2012. *The Performance Framework of the Australian Government, 1987 to 2011*. Handout.

review...need to be reinvigorated',<sup>39</sup> so we should expect to see developments here.

- Reduce the administrative demands on smaller entities and, where appropriate, collapse smaller entities into other organisations
- Identify opportunities to reduce the compliance burden on entities more broadly, and
- Reinforce the responsibilities of Chief Executives to manage risks.

The then Labor Government subsequently took steps to enact the *Public Governance, Performance and Accountability Act 2013* in June this year to modernise the Commonwealth's framework, which is to take effect on 1 July 2014. Further work is being progressed by Finance to establish the applicable Rules, which will contain details of the technical requirements to support the application of the Act.

The Rules will provide the opportunity to flesh out in a practical manner the way the many principles contained in the Act are expected to operate. As such, the Rules will be critical to the achievement, in the longer term, of the benefits identified for the legislation.

Time will tell just how substantive the changes arising from the new framework will be in terms of public sector management and performance.

To coincide with the release of the Rules, expected in the second quarter of 2014, the ANAO is refreshing its popular Better Practice Guide on 'Public Sector Governance'.

I should also mention that we have published a very useful better practice guide on 'Innovation in the Public Sector: Enabling Better Performance, Driving New Directions', which recognises that an appetite for risk and risk management is essential; and risk avoidance is an impediment to innovation.<sup>40</sup> We are also scheduled to publish a revised guide on *Administering Regulation* early next year.

## Leadership and culture

Reflecting on the history of reform in the public sector and organisational performance, the question we keep coming back to is how to create the right conditions and incentives for the public sector to achieve the best outcomes, consistent with government policies and the expectations of the Parliament.

---

<sup>39</sup> Ibid., p.39

<sup>40</sup> ANAO 2009. Better Practice Guide. *Innovation in the Public Sector: Enabling Better Performance, Driving New Directions*. 1 December.



As mentioned earlier, perhaps the single most important ingredient is political leadership – the involvement and interest of key ministers in a significant reform or change agenda can be a game changer. If the Minister is focused, so is the departmental secretary and so on down the line. Effective organisational leadership is also essential to public sector organisations delivering on their charter responsibilities and for fostering innovation.

Those departments with the responsibility for establishing the various legislative and policy frameworks will necessarily be guided by formal requirements of the parliament and the government, but conscious also that public sector agencies should not be so bound up in red tape that performance and innovation are constrained. Nevertheless, history shows however that no matter how ‘principles based’ legislation might be at the start of its life, amendments to address circumstances subsequently arising tend to add more requirements and rules. Generally speaking, no regulation is put in place for the wrong reasons. We just need to appreciate that many rules have a ‘use by’ date. Getting the balance right is a never-ending journey for government and the parliament.

Those charged with governance in public sector agencies have a responsibility to provide the leadership, strategies and oversight to deliver on the policies of the government of the day having regard to any legislative requirements. To assist in delivering on their responsibilities, those charged with governance must also establish internal structures and policies – again with the expectation that performance and innovation are not constrained by such arrangements.

Leading academics<sup>41</sup> have written about the importance of understanding both the hard and soft elements of governance – because, as important as the frameworks are, the people element of our work is just as important, if not more important. Ultimately, managerial reform is dependent on the behaviour of people.

To illustrate this with a very positive Defence example, Defence overcame the most significant financial reporting issues any Australian Government agency had in preparing their financial statements on an accrual basis, particularly in respect of asset and inventory accounting where legacy systems were based on quantities held and commonly lacked the rigour expected to support financial reporting obligations. It was not until the Services came on board with the civilians in the department, under the then leadership of General Peter Cosgrove, Chief of the Defence Force and Ric Smith, Secretary of the Department of Defence, assisted by senior staff, that a clear and measured strategy was developed and delivered on to achieve a clear opinion on the Defence accounts. General Cosgrove, in his direct style, said to the Services:

‘There can be no excuses accepted, to say ‘I’m very busy on operations.’  
If we don’t get the fundamentals fixed, that is our finances, by taking

---

<sup>41</sup> Edwards Meredith, Halligan John, Horrigan Bryan, Nicoll Geoffrey, 2012. *Public Sector governance in Australia*. Australian National University E Press. Canberra. pp 75, 76

responsibility and working with our people, then operational success will not be sustained and all the world will see we are half-baked.

There is a simple imperative at work here. The efficiency with which Defence manages its resources and controls its business has a direct impact on our nation's Defence capability and military effectiveness.'<sup>42</sup>

This was a powerful illustration of the importance of leadership, sound strategy and a disciplined approach to delivering that overcame serious challenges. It shows why the people dimension of public sector management is essential to success, and why leadership is necessarily at the fore. I should add that this approach also had the strong support of the then Defence Minister, the Hon Dr Brendan Nelson, MP.

Relevant here is the book by Jim Collins, *Good to Great*, concerned with why some companies make the leap to being great. In discussing his research findings on leadership, Collins observed that the leaders of great companies, amongst other things:

- embody a paradoxical mix of personal humility and professional will. They are ambitious, to be sure, but ambitious first and foremost for the company, not themselves
- they are resolved to do whatever it takes to make the company great, no matter how big or hard the decisions.<sup>43</sup>

The take-out message for the public sector is the importance of leadership which is focused on achieving better outcomes, combined with the resolve and professional will to deliver on these goals.

This underlines why the organisational capability reviews which are being conducted at the instigation of the Public Service Commissioner and the broader focus on leadership are so important as a complement to the work currently underway on the public sector management framework.

## Concluding comments

The Australian Government public sector has a lot to be pleased with – high levels of employee engagement, generally well administered programs and an enviable record on reform. Over the last 30 years, the public sector has been an early adopter and adapter of change and technology, but it does need ongoing encouragement from ministers and key central agencies to maintain the momentum.

---

<sup>42</sup> Cosgrove, Peter 2005. *Chief of Defence Force's address at the Defence Financial Controls Framework Project launch.* 29 June.

<sup>43</sup> Collins Jim. 2001. *Good to Great – why some companies make the leap...and others don't.* Random House Business Books, London UK. p.12

Our organisational capability to assess the impact of government policies and shape policy options for the years ahead needs to be strengthened along with our ability to plan, resource and prioritise effort – this is core business for the APS. We also need to do more to invest in leadership and engage with our staff in a way that creates the conditions that encourage greater innovation in the delivery of services. The public sector would not be alone on this front but it is clear that agencies’ governance and strategic planning approaches will need to address these matters despite fiscal constraints. As the Public Service Commissioner has observed ‘there is much still to be done to ensure the pace of change (in the APS) responds to that in the community we serve’.<sup>44</sup> As mentioned earlier, to give effect to the required strategies, public sector organisations need to provide the headroom – in terms of budget cover and capacity – accepting that the rate of investment may at times need to be less than ideal given other demands on budgets.

The focus on building greater resilience in communities and engaging with communities to design and implement policies is likely to increase. With advocates like Dr Peter Shergold encouraging the next wave of public sector reform ‘actively incorporating empowerment within new structures of democratic governance,’<sup>45</sup> commentators like Malcolm Prowle emphasising the need to think radically about how public services can be managed and funded, and others looking to revitalise the Council of Australian Governments modus operandi, we can expect to see different governance regimes and delivery models in the years ahead as the public sector remains open to approaches that offer better outcomes.

Structurally, the various board, committee and reporting regimes that make up agencies’ governance arrangements are in place. There are, however, a range of soft spots where, in practice, agencies have fallen short of the mark, particularly in relation to:

- not recognising early enough when a new or uncertain risk moves adversely
- not providing sufficient oversight for the implementation of some new programs
- not measuring or assessing whether the impact of programs aligns with the original policy objectives.

This underlines why it is important for public sector agencies to apply some healthy scepticism to assessments when decisions carry significant consequences.

Against this background, there will be a premium placed on effective leadership balancing ‘the realities of organisational life with an optimistic outlook’<sup>46</sup> as we

---

<sup>44</sup> Op.cit., *State of the Service Report Commissioner’s overview* p.1

<sup>45</sup> Ibid, p.12

<sup>46</sup> Based on an article titled *The Role of Optimism in Leadership*. 30 April 2012. Found at <http://iamleadershape.blogspot.com.au/2012/04/role-of-optimism-in-leadership.html> p.1

continue this journey. This is a time for clear vision, clear priorities and sound strategies rather than muddling through.

In this context, we need to appreciate that it is only by targeted investment in organisational capability that we will position our organisations to make the right decisions on policy options, strategies and approaches, to take advantage of opportunities in the period ahead. The APS has been well regarded as a model for public sector reform and it is important that this tradition is carried forward in the best interests of the nation.