

The Auditor-General
Audit Report No.18 2000–2001
Performance Audit

Reform of Service Delivery of Business Assistance Programs

Department of Industry, Science and Resources

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Canberra ACT
30 November 2000

Dear Madam President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Industry, Science and Resources in accordance with the authority contained in the *Auditor-General Act 1997*. I present this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *Reform of Service Delivery of Business Assistance Programs*.

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—
<http://www.anao.gov.au>.

Yours sincerely



P. J. Barrett
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

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Abbreviations

AAO	Administrative Arrangements Order
ACS	Australian Customs Service
ANAO	Australian National Audit Office
CSG	Customer Service Group
IRDB	Industry Research and Development Board
ISR	Department of Industry, Science and Technology
MEC	Manufacturing, Engineering and Construction Division
MIS	Management Information System
PDT	Program Development Team
PMG	Program Management Group
SLA	Service Level Agreement

Summary and Recommendations

Summary

AusIndustry and business assistance programs

1. In December 1997, *Investing for Growth*, the Government's response to *Going for Growth—Business Programs for Investment, Innovation and Export* (the Mortimer Report—June 1997), outlined a revised approach for the Government's delivery of business assistance programs. It stated that:

The Government will develop a clear client focus in its dealings with business. A single delivery agency will be established to focus on the needs of business and simplify business interactions with government.

In delivering programs, the Department of Industry, Science and Tourism will move to separate policy development and program delivery, as advocated by Mortimer. This will ensure that the delivery of business programs is more cost effective and clearly focused on achieving the required outcomes.

We are determined that the design and delivery of our business programs will meet high standards of quality and efficiency. These programs will contribute to our overall vision of a strongly competitive and growing Australia.

2. AusIndustry, a Division of the Department of Industry, Science and Resources (ISR), is the Commonwealth Government's central point for delivery of business assistance programs. Its responsibilities include the delivery of 28 products and services with a total value of over \$1.8 billion to some 18 300 customers. The cost of providing these products and services is estimated to be \$34.2 million. These products and services span a wide range of industry sectors and business needs including assistance for research and innovation, for raising venture capital, the provision of general and industry specific incentives, and information services. Delivery of these products and services is in the form of grants, loans, tax concessions, duty concessions, and contributions to venture capital funding.

3. ISR has made, or is in the process of making, substantial changes to the way in which it undertakes its business, consistent with the direction set out in *Investing for Growth*. These changes have included:

- a change in AusIndustry's relationship with the main stakeholder (the Minister) and the Secretary of ISR, in which AusIndustry is responsible for product and service delivery but not policy development; and the

associated implementation of a new departmental structure and related restructure within AusIndustry to better accommodate the new arrangements;

- the creation within ISR of a new stakeholder group (the policy divisions), responsible for policy development and advice;
- a change in the relationship between AusIndustry and its varied groups of customers as a result of the decision to decentralise product delivery through the regional offices;
- a move to a more enhanced customer focus through a 'one stop shop' approach to customer service and enquiries; and
- the transfer of a number of related programs from the Australian Customs Service (ACS) in the first half of 1999.

Audit objective and approach

4. The objective of the audit was to assess and make recommendations on the management by ISR and, in particular, by AusIndustry of the implementation of the change process in AusIndustry, following the Government's policy statement in *Investing for Growth*. The audit covered those changes in management and operations arising from the move to the new arrangements. The audit focussed in particular on:

- the overall strategic management of the change process by AusIndustry;
- the detailed implementation of the new service delivery arrangements, notably the separation of policy and product delivery; and
- the implementation of an enhanced customer focus.

5. The ANAO assessed the management by AusIndustry of the implementation of the change process against better practice in, among other aspects, change and project management. The audit approach included audit examination at AusIndustry National Office and four AusIndustry regional offices; file and documentation review; interviews with over seventy key staff involved in the change process; and discussions with stakeholders including the Minister's office, a number of industry associations, chambers of commerce and customers of AusIndustry.

6. Given that the change process was ongoing during the audit, AusIndustry was provided with audit findings as they emerged to enable it to consider them, and take any necessary action, as it undertook the change process.

Conclusion

7. Implementation of the *Investing for Growth* reforms has involved fundamental change for AusIndustry; the change has had to be implemented at the same time as maintaining on-going service to customers, introducing new programs and absorbing programs transferred from the Australian Customs Service. AusIndustry has been able to maintain its service to customers during this period. However, notwithstanding the scale of the task, the change process has taken over two years and the pace of change has fallen well short of targets. While separation of policy and product delivery has been achieved, a number of organisational and management structures still require further development to ensure operational effectiveness. This has delayed realisation of the benefits of the new arrangements.

8. While key AusIndustry staff were generally positive about the changes and their benefits for policy focus and cost effective operation, it was generally accepted that further development and settling down is needed to produce the full benefits of the initiative. Furthermore, although the new arrangements were intended to enhance customer focus and simplify interactions between business and government, least progress had been made on this particular aspect of the reforms at the time of the audit, with strategies to enhance customer focus only just being implemented.

9. The limited progress achieved with the change process was due in part to difficulties experienced in its strategic management. There was not a coordinated and clearly articulated management strategy for the change process for much of the implementation period. A strengthened management approach offered the prospect of greater confidence of successful and timely completion of the change process. In particular, there were limitations in formal oversighting arrangements including the lack of a systematic and documented approach to risk management.

10. Recently, progress in implementing the reforms has accelerated as AusIndustry has sought to strengthen its approach to strategic management, directly addressing some of the issues raised in this audit. Even so, it was still not clear at the conclusion of the audit, when the change process is expected to be concluded. AusIndustry has also recognised the need for strengthened management information and resource costing/allocation systems, and is in the process of implementing an integrated management information system and trailing activity based costing.

11. Effective service level agreements form a central administrative linkage in the separation of policy development and product delivery, and are fundamental to successful operation for the service delivery organisation and form a sound base for a constructive formal and informal working relationship. At the time that the administrative separation of policy development and product delivery was effected (July 1999), there was an agreement in place for only one product. By early 2000 there were still only seven agreements in place. This is against an earlier target of having five agreements in place by December 1998. More recently development of agreements has been more rapid. There are now 20 agreements in place.

12. The service level agreements (SLAs) examined by the ANAO had a number of strengths, including clear specification of roles and responsibilities, duration and consultative mechanisms. However, some aspects of the SLAs require further clarification and development to fully assist the on-going management of service delivery. Clearer specification of the nature, level and quantum of service would be particularly useful. At the time of the audit the use of performance information in agreements was not consistent; it was limited in some respects; and was not consistently used for performance monitoring.

13. Currently, a number of SLAs do not clearly detail the levels of the services to be provided under the agreements, nor the costs for providing the services. Such specification is considered an essential part of governance arrangements in a more conventional purchaser-provider arrangement, providing for transparency, accountability and clarity between the parties to the agreement. Notwithstanding the fact that the approach taken to separate policy and service delivery functions in ISR is closer to a partnership than a purchaser provider relationship, the absence of specification of the level of services and their costs weakens the management framework.

14. At the time of the audit, the key aim of providing improved customer service through more customer focussed delivery arrangements, including a 'one stop shop' approach, was only just entering the implementation stage. Stronger change management arrangements have now been implemented in this area providing more effective support for implementation of the changes. Notwithstanding the early stages of implementation, AusIndustry's approach provides a good basis for achieving the changes needed to support a strengthened and more responsive customer focus. It is establishing better ties with customers, assessing customer expectations and satisfaction. Management arrangements have been established to support a 'one stop shop' concept;

and customer satisfaction surveys undertaken by AusIndustry indicate moderate to strong approval by customers.

Agency response

15. ISR has agreed with all three of the recommendations in the report and provided the following overall response:

ISR notes and agrees with the ANAO's view that "AusIndustry's approach provides a good basis for achieving the changes needed to support strengthened customer focus". ISR also agrees that progress in implementing reforms has accelerated in recent times.

Clearly some aspects of the reform process have progressed at a faster rate than others. Nevertheless ISR considers that, overall, good progress has been made especially considering that:

- the number of products and services delivered by AusIndustry has increased substantially in recent months; and*
- considerable resources have needed to be devoted to the implementation of new programs, as well as the transfer of other programs from Customs.*

ISR's view is that the change process, especially the cultural change process, should be seen as ongoing. Nevertheless ISR accepts that planning for change management should clearly identify milestones for the various phases of the project and that the prospects for success of any change process lie in effective and integrated management and monitoring. ISR notes that the ANAO acknowledges the efforts AusIndustry has made progressively to improve the overall management and coordination of the change management process.

Key Findings

The overall strategic management of the change process (Chapter 2)

16. In December 1997, *Investing for Growth* outlined the Government's revised approach for delivery of business assistance programs. The first steps in implementation of the reforms set out in *Investing for Growth* were in February 1998, when ISR established a Program Development Team (PDT) to provide the organisational model and the management strategies for the implementation of the new arrangements. The PDT reported in May 1998, and proposed, among other things:

- an outline of a proposed model for Departmental restructure;
- a model partnership agreement and Service Level Agreement (SLA)¹; and
- a timetable and process for implementation (including a steering committee and implementation team) with a categorising of programs to be delivered in future by AusIndustry.

17. A substantial number of the recommendations of the PDT report appear to have been accepted by the ISR executive, however consideration of the PDT report is not well documented, and so it was not clear to the ANAO which recommendations of the report were endorsed for action. Some, including establishment of a steering committee and timelines for implementation, were not adopted.

18. Progress over the 12 or so months following the PDT report was somewhat limited.² An Innovation Branch was established in September 1998 within ISR to separate policy advice from service delivery for the five programs then delivered by AusIndustry, and a process review was commenced in October 1998³, other major changes took much longer. A number of programs formerly delivered by the Australian Customs Service (ACS) were also transferred to AusIndustry in April 1999.

¹ The purpose of the partnership agreement was to set out the agreed roles and responsibilities of AusIndustry; ISR's policy divisions and the Corporate Services Division. It was also intended to serve as an overarching framework for the development of program specific Service Level Agreements (SLAs).

² This period in part coincided with the October 1998 Federal election.

³ The AusIndustry Process Review was initiated in October 1998 to review the full range of processes relating to the delivery and management of AusIndustry programs. It was to report at the end of March 1999 (it actually reported in early May 1999) and the target for implementation of its outcomes was 30 June 1999. However its work was largely superseded by the implementation of the new structure in July 1999.

19. However, the new departmental structure, creating AusIndustry as the service delivery arm of ISR, only came into effect in July 1999, at which time only one SLA had been signed for the programs to be delivered.

20. By the time of this audit, well over two years had elapsed since the December 1997 announcement by the Government of its new approach to business assistance programs. Whilst a considerable amount of the necessary change had been accomplished, there is still further work necessary before the new arrangements are in place and operating fully, limiting the extent to which the benefits of the new arrangements have been achieved. For example, SLAs had been completed for only seven of the product delivery arrangements out of a possible 20 by early 2000. More recently, progress has accelerated (at the time of reporting, 20 SLAs had been completed), coinciding with improvements in AusIndustry's approach to change management.

21. Limitations in progress in implementing the required changes prior to July 1999 were due in part to difficulties experienced in strategic management of the change process. In particular, there was not a coordinated and clearly articulated management strategy for the change process *per se*; rather there were some separate aspects of the change management process, often covered incidentally to other elements of planning and development of product delivery. There were four areas in particular where a strengthened management approach offered the prospect of greater confidence of successful and timely completion of the change process. These have been discussed with AusIndustry during the course of the audit, and many issues acted upon.

22. Firstly, AusIndustry did not have a systematic and documented risk management approach in relation to the change process, which would have provided reassurance for management as to the likelihood of successful and timely completion of the change process and contributed to the continuing re-assessment of changing risk profiles. AusIndustry does now have risk management plans assessing the risks associated with the delivery of individual products, flowing from implementation of its Business Plan, but this approach falls short of assessing the risks involved in implementing the new service delivery arrangements and the change management process as a whole. AusIndustry has acknowledged that a fundamental and comprehensive risk assessment needs to be undertaken for the whole of AusIndustry.

23. Secondly, for much of the implementation period there was no steering group charged with oversight of the implementation of the service delivery reforms. The need for senior management overview

and coordination was in fact recognised by the Program Development Team in May 1998. It recommended the adoption of a project management approach incorporating a system of key milestones and time frames, with leadership oversight by a steering group, noting that it was '*critical that there be a group with clear responsibility to oversight the implementation of the new model*'. This was not implemented. Instead, oversight was exercised through the ISR leadership team meetings.⁴ Change management was not identified as a separate issue or standing agenda item in these meetings, and in practice, ISR was slow to recognise the need for remedial measures to deal with difficulties that were arising, such as delays in negotiating the SLAs.

24. AusIndustry has now established a Customer Service Steering Committee to oversight implementation of enhanced customer focus.

25. Thirdly, AusIndustry's approach to planning and monitoring for the new arrangements fell short of better practice, which suggests that progress in implementing complex new arrangements should be systematically monitored according to previously approved and clearly documented implementation schedules.

26. While the Program Development Team did set a goal for completion of the implementation of the change by the end of 1998, this proved too optimistic and was not rigorously monitored. AusIndustry indicated that this was due to the occurrence of the 1998 Federal Election. Following the transfer of service delivery responsibilities to AusIndustry from July 1999, AusIndustry developed its 1999–2000 Business Plan, which provided objectives, plans and targets for each major branch/section. However, the emphasis of the Plan was on ongoing program operations, not on the change process *per se*; accordingly, it did not set timings and targets for key events necessary to bring about the new organisational working arrangements within a desired timeframe.

27. The ANAO also notes that AusIndustry's role in the provision of the Government's assistance to business is to be a conduit for seamless delivery of services to the customers. That is the focus is primarily on the citizen or business receiving the services they require rather than on the agency and its delivery of services, reflecting an increasing move by government towards multiple delivery of services. Ensuring the effectiveness of this delivery process requires an appropriate corporate governance framework involving a partnership between those different parties with key responsibilities for the customer interface, service

⁴ The ISR leadership teams were the ISR Corporate Leadership Group until late 1998 and then the ISR Leadership Team and the Portfolio Managers Meeting from December 1998 onwards.

delivery and planned outcomes. At present these broader stakeholder interests are not represented in AusIndustry's governance structures for service delivery. How to address these corporate governance challenges is, we suggest, a matter which agencies such as AusIndustry will need to give increasing focus in the future.

28. Finally, AusIndustry was established without effective Management Information Systems (MIS) in place. This limited its ability to gain the benefits from the new delivery arrangements. AusIndustry currently has a number of separate information support systems for different product areas. These systems are not integrated and vary in content, format, accessibility and the quality of information they provide for managers. As a consequence, policy areas have not been able to access information directly on the performance and delivery of products and services, and financial systems do not adequately support management decision making on resource allocations or enable AusIndustry to assess efficiency changes. Better coordination and sharing of information on customers is also one of the key elements in proposals to enhance AusIndustry's customer focus.

29. AusIndustry has recognised the need to strengthen information available to managers. As a first step, it commissioned a scoping study to develop a strategy for MIS development and, as a result, plans to integrate the existing management systems into a new AusIndustry wide system. However, an integrated program management system is not expected to be finalised until 2001–2002. Program reporting and executive information needs will not be met until 2002–2003. AusIndustry is currently trialing an Activity Based Costing system to assist with its resource information needs.

Implementing the separation of product delivery from policy (Chapter 3)

Service Level Agreements

30. Service level agreements (SLAs) form a central administrative linkage in the separation of policy development and product delivery for service delivery organisations. They have the purpose of defining the terms of agreement on objectives, operational arrangements and performance measures. As such they form the core of the partnership arrangements and are fundamental to successful operation.

31. The ISR/AusIndustry service level agreements have been formulated in the context of a partnership rather than a separation of purchaser from provider. The distinction is an important one that has

significant implications for the content of the SLAs. This approach flows from the fact that, unlike typical purchaser-provider arrangements, both policy development and product delivery responsibilities are within the same organisation (ISR).

32. There would have been clear operational advantages in completing the SLAs quickly given their significant role in the new arrangements as they:

- enable efforts to be focused on cost effective delivery of the agreed services, rather than on lengthy internal negotiation;
- formalise corporate governance arrangements in that they provide clear definitions of responsibility and a clear understanding of relationships between the parties and those entrusted to manage resources and deliver outcomes; and
- provide clarity of arrangements which can contribute to an atmosphere of cooperation and partnership.

33. The time taken to negotiate the SLAs was considerable initially, although it has since accelerated. Although the PDT report set a target of 5–10 weeks for completion of the SLA negotiation process, the time taken to complete the first four SLAs was substantially longer. The earliest was signed off on 25 June 1999, some 12 months after the PDT report, and the remaining three SLAs were signed over the following four months. The time taken to reach agreement for a second tranche of three programs, (transferred from ACS) was less, varying between 18–38 weeks. At the end of the audit, a further 13 SLAs had been completed in substantially less time than the earlier SLAs.

34. It is important to note that the ANAO found no evidence that the delays in developing SLAs had reduced the quality of service to customers. However, the extended process has inevitably delayed the realisation of the intended benefits of the new arrangements.

35. The first seven SLAs agreed had a number of strengths, particularly with respect to the clear specification of:

- the respective roles and responsibilities of AusIndustry and the departmental policy divisions (this formed the most substantial part of the agreements reviewed);
- the duration of the arrangement and the timing for negotiating a replacement arrangement;
- on-going consultative mechanisms; and
- mechanisms to vary the arrangements and for dispute resolution.

36. However, other aspects of the SLAs would benefit from further clarification and development to assist the on-going management of service delivery. In particular:

- the specification of services to be provided was not clear and unequivocal, risking the possibility of misunderstandings with the passage of time and changes of staff;
- the level and quantum of service to be provided was not specified, weakening managements ability to plan for and smoothly adapt to, changes in delivery; and
- use of performance information was not consistent, and approaches adopted have had limitations. In particular, for the earlier SLAs, measures were nominated for some aspects of performance but without any indication of the acceptable or target levels for performance. In some of the later SLAs, it is doubtful whether all of the measures could be collected or assessed accurately or cost effectively.

37. A further challenge for AusIndustry in achieving all the benefits that formalised agreements offer is to consider ways of addressing resourcing of service levels more effectively. Currently, the SLAs in most respects do not clearly detail the levels of the services to be provided under the agreements, nor the costs for providing the services. Such specification is considered an essential part of governance arrangements in a more conventional purchaser-provider arrangement, providing for transparency, accountability and clarity between the parties to the agreement. Its absence weakens the management framework.

38. There are in fact practical constraints in detailing resources within the SLAs, since the SLAs are more in the nature of partnership agreements and there are over 20 SLAs to be managed. One means of addressing this could be an arrangement in which SLAs are made not on the basis of each product or service to be delivered, but for each major client in the policy divisions. This would provide for transparency and accountability as well as a measure of management flexibility in the mechanisms for delivery of products and services within each of the SLAs.

Performance monitoring

39. Since completed agreements (and associated performance targets) have not been in place for very long, it was too early at the time of the audit to fully assess the new arrangements. However, it was noted that the frequency and standard of reporting of performance information is uneven across the various agreements. AusIndustry has acknowledged the limitations and initiated action to improve compliance by its managers with reporting requirements of the agreements.

Re-engineering and efficiency

40. As noted above, it is not possible with the information currently available to establish the extent to which the new arrangements have delivered efficiency gains so far. Notwithstanding this, AusIndustry is addressing efficiency of the service delivery through re-engineering product delivery processes. It has established a specialist area within AusIndustry devoted to re-engineering its program delivery systems.

41. The first program to be re-engineered was the R&D Tax Concession program. It has resulted, *inter alia*, in a more open, advisory approach which involves AusIndustry staff visiting businesses which are new to the program and explaining the program and providing information on other AusIndustry products and services. Preliminary indications, from staff and some customer feedback, are that the new approach is being favourably received. At the time of the audit, AusIndustry was re-engineering the R&D Start program, AusIndustry's largest grant program.

Implementation of enhanced customer focus (Chapter 4)

42. AusIndustry's plans to bring about cultural change in support of a greater customer service focus within the organisation are a key part of *the Investing for Growth* reforms.⁵ However, at the time of the audit, the implementation of the enhanced customer focus had commenced but was some way from completion. The ANAO was, therefore, only able to examine plans and progress against plans, rather than outputs and outcomes achieved. At the time of the audit AusIndustry was progressing this aspect of the reforms through a variety of strategies.

People related issues

43. AusIndustry has undertaken a suite of initiatives, which provides a good basis for achieving the required cultural change, including:

- consultation, involving all AusIndustry staff, on the implications of the customer focus, aided by a specialist consultant;
- the creation of a new Customer Service Manager role, which defines how AusIndustry officers are to provide improved levels of customer service in their dealings with business and industry; and
- a range of training initiatives.

⁵ *Investing for Growth* calls for a single delivery agency with a clear client focus on the needs of business and simplified interaction between business and Government

44. The Customer Service Managers will be the first and most frequent points of contact between AusIndustry and its customers. AusIndustry intends that they will become the dedicated managers for a number of customers covering a range of products and services in response to the needs of the firms concerned. Customer service arrangements will have a range of support elements for AusIndustry staff, including a website for distribution of program support documents such as procedure manuals, guidelines and forms. AusIndustry is also in the process of developing a database to capture customer contact information.

Customer relations

45. In discussions with the ANAO, some industry associations commented positively on their relations with AusIndustry and on the role and work of regional offices. However, some industry views reflected a degree of confusion over the respective roles of AusIndustry and Austrade. AusIndustry is currently seeking to improve contacts with customers through means such as joint presentations to industry association meetings along with Austrade and State Government agencies. Initiatives flowing from its reengineering efforts have also resulted in more customer-friendly provision of advice about the range of its products and services through visits to selected customers.

46. AusIndustry has sought to establish its customers' expectations, notably through focus groups and to establish a baseline for customer satisfaction through a number of surveys conducted in 2000. At the time of the audit AusIndustry had completed customer satisfaction surveys in respect of delivery of seven of their products. The levels of satisfaction recorded against major aspects of service provision demonstrated for the most part moderate to strong approval by customers, with an average satisfaction rating of 83 per cent. AusIndustry has also had very positive feedback on its hotline, which is operated as part of the Business Information Service, and which draws together business information from the three layers of government. Ninety-eight per cent of surveyed users of the hotline have expressed satisfaction with the service.

47. AusIndustry has also used the surveys to identify areas for improvement in customer service. These include strengthening AusIndustry staff understanding of customer needs, the provision of advice that comprehensively caters to the range of customer needs, and keeping customers informed about relevant new developments in services. ANAO discussions with industry also suggested that AusIndustry should give attention to strengthening its officers' understanding of the needs of high technology businesses and to giving sufficient attention to the servicing and monitoring aspects of assistance given.

Administration and management

48. AusIndustry has restructured each of its regional offices with the aim of more effectively serving the particular needs of its customer base in each region. It has also restructured the way in which it provides advice to customers with the aim of providing a 'one stop shop' for initial enquiries and for customer service with the ability to provide more specialised advice on particular products and services where necessary. As previously noted, it is too early to assess the effectiveness of these new arrangements.

Recommendations

Recommendation No.1

Para. 2.41

AusIndustry's strategic management of the change process

The ANAO recommends that AusIndustry adopt a structured project management approach for the remainder of the implementation of the new service delivery arrangements, including a structured approach to risk management, and specification of key milestones and time-frames.

ISR response: Agreed

Recommendation No.2

Para. 2.62

Management information and resource issues

The ANAO recommends that AusIndustry establish adequate methods to enable it to gain accurate information on the costs associated with the delivery of its products and services.

ISR response: Agreed

Recommendation No.3

Para. 3.28

Service Level Agreements (SLAs)

The ANAO recommends that AusIndustry strengthen existing SLAs to include:

- performance measures which focus on a smaller number of measures that are linked to outputs and planned outcomes, assessable, and readily collected; and
- specification of levels of services to be provided; this might be achieved by reducing the number of SLAs.

ISR response: Agreed

Audit Findings and Conclusions

1. Introduction

This chapter provides an overview of AusIndustry's role in the Government's provision of industry assistance and outlines the audit objective, scope and methodology.

Background to the audit

1.1 In December 1997, *Investing for Growth*, the Government's response to *Going for Growth—Business Programs for Investment, Innovation and Export* (the Mortimer Report—June 1997), outlined a range of changes designed to improve assistance to industry by ensuring the effective design and delivery of business assistance programs. The Government charged the then Department of Industry, Science and Tourism with responsibility for the delivery of business programs as set out in Figure 1.1.

Figure 1.1

The Government's new arrangements for industry assistance

Delivery of business programs
<p>The Government will develop a clear client focus in its dealings with business. A single delivery agency will be established to focus on the needs of business and simplify business interactions with government.</p> <p>In delivering programs, the Department of Industry, Science and Tourism will move to separate policy development and program delivery, as advocated by Mortimer. This will ensure that the delivery of business programs is more cost effective and clearly focused on achieving the required outcomes.</p> <p>We are determined that the design and delivery of our business programs will meet high standards of quality and efficiency. These programs will contribute to our overall vision of a strongly competitive and growing Australia.</p>

Source: *Investing for Growth*, p. 83

1.2 These aims are now the responsibility of the Department of Industry Science and Resources (ISR). To achieve these aims, the role of AusIndustry, a Division of ISR, has been expanded to become the main delivery arm of business assistance programs for the Department. This audit addresses implementation of the new service delivery arrangements, some of which are still under development.

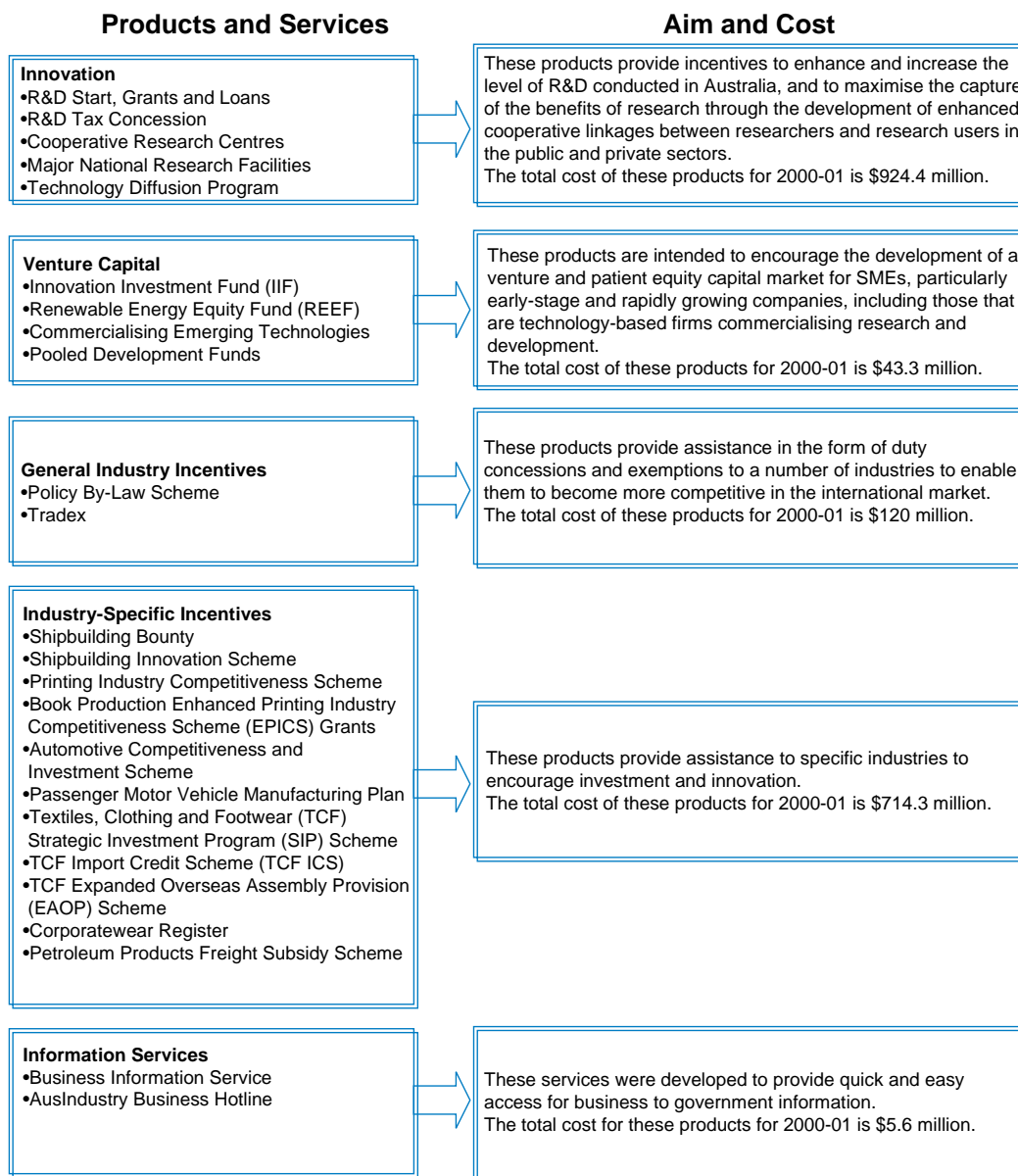
The service delivery responsibilities of AusIndustry

1.3 In 2000–2001, AusIndustry's responsibilities include the delivery of 28 products and services with a total value of over \$1.8 billion to some 18 300 registered customers. The cost of providing these products and services is estimated to be \$34.2 million. These products and services span a wide range of industry sectors and business needs including assistance for research and innovation, venture capital raising, the provision of general and specific industry assistance and incentives, and

information services. Delivery of these products and services is variously in the form of grants, loans, tax concessions, duty concessions, and contributions to venture capital funding.

1.4 Figure 1.2 provides an overview of the assistance that the Commonwealth Government, through AusIndustry, provides to business. A more detailed description of the individual products and services can be found at Appendix 1.

Figure 1.2
AusIndustry assistance to business

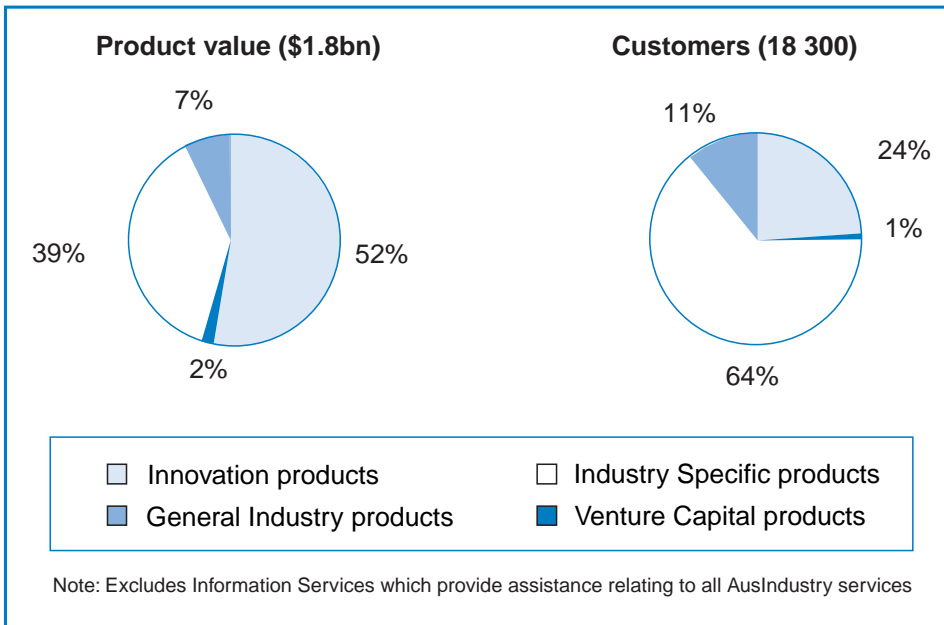


Source: AusIndustry

1.5 Figure 1.3 quantifies this assistance by AusIndustry type of product.

Figure 1.3

AusIndustry product types by value and customer



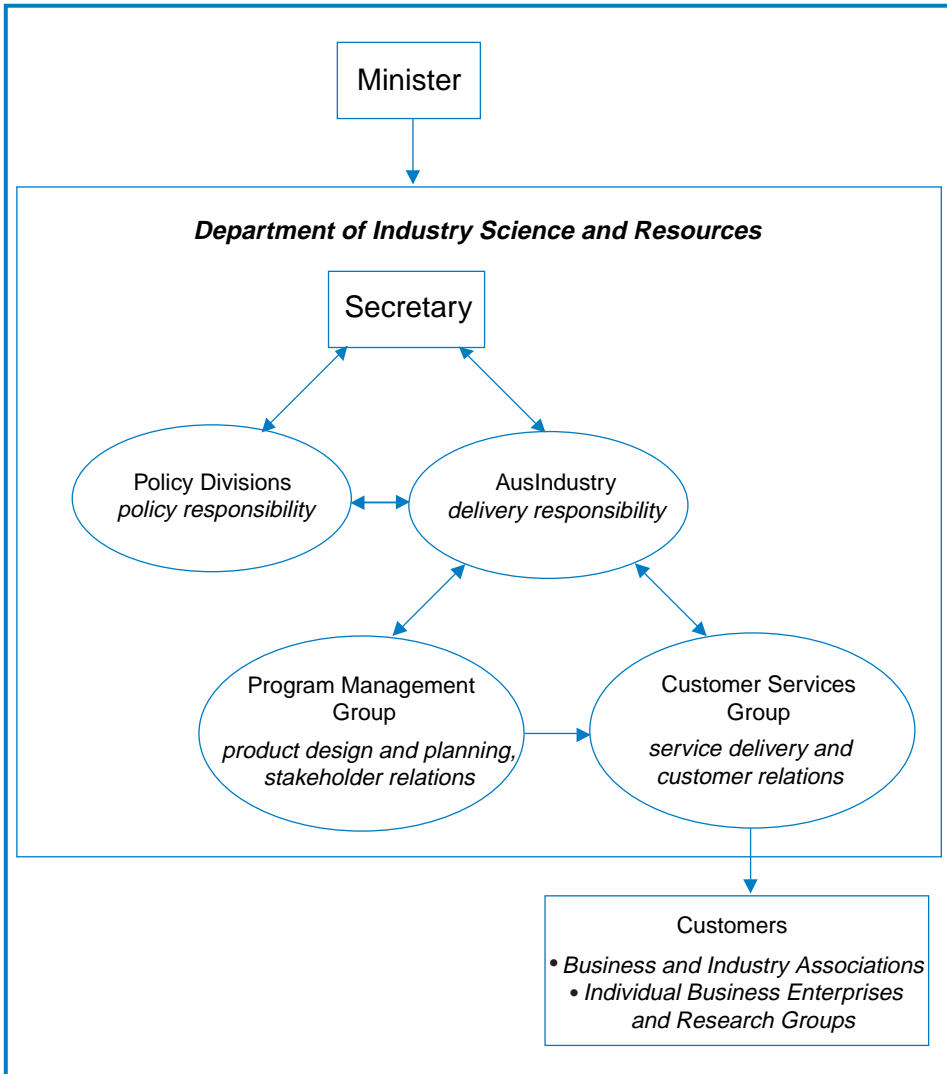
Source: AusIndustry

1.6 Prior to *Investing for Growth*, AusIndustry was only responsible for delivery of the products in the Innovation and the Venture Capital categories. The products in the General and Specific Industry assistance categories were added to AusIndustry's responsibilities as a consequence of the transfer in April 1999 of programs previously administered by the Australian Customs Service in line with the aims of *Investing for Growth*. This had the effect of approximately doubling the value of products and services for which AusIndustry is responsible.

1.7 Also in line with *Investing for Growth*, AusIndustry has responsibility for product delivery and the relevant divisions elsewhere in ISR are responsible for policy oversight. Within AusIndustry, the Program Management Group is responsible for stakeholder relations (ie. with the Minister, Secretary and policy divisions) and overall design and planning of product delivery and the Customer Service Group is responsible for product delivery and customer relations. The relationship is demonstrated in Figure 1.4.

Figure 1.4

Relationships between AusIndustry, stakeholders and customers



Source: ANAO analysis

The scope and diversity of the change process

1.8 The change in the way in which AusIndustry undertakes its business, flowing from the reforms pursuant to *Investing for Growth*, has been substantial and has included:

- a change in AusIndustry’s relationship with the main stakeholder (the Minister) and the Secretary of ISR, in which AusIndustry is responsible for product and service delivery but not policy development; and the associated implementation of a new departmental structure and related

restructure within AusIndustry to better accommodate the new arrangements;

- the creation within ISR of a new stakeholder group (the policy divisions), responsible for policy development and advice;
- a change in the relationship between AusIndustry and its varied groups of customers as a result of the decision to decentralise product delivery through the regional offices;
- a move to a more enhanced customer focus through a ‘one stop shop’ approach to customer service and enquiries; and
- the transfer of a number of related programs from the Australian Customs Service (ACS) in the first half of 1999.

The audit objective and methodology

1.9 The objective of the audit was to assess and make recommendations on the management by ISR and, in particular, by AusIndustry of the implementation of the change process in AusIndustry, following the Government’s policy statement in *Investing for Growth*. The audit covered those changes in management and operations arising from the move to the new service delivery arrangements outlined above. The audit focussed in particular on:

- the overall strategic management of the change process by AusIndustry;
- the detailed implementation of the new service delivery arrangements, notably the separation of policy and product delivery; and
- the implementation of an enhanced customer focus.

1.10 Criteria for the audit were derived from recognised better practice in change management, project management, design of relevant Service Level Agreements (SLAs), and performance, financial and risk management in the public and private sectors. These criteria are outlined throughout the appropriate parts of the report.

1.11 The audit methodology comprised:

- audit examination at AusIndustry National Office and four AusIndustry regional offices;
- file and documentation review;
- interviews with over seventy key staff; and
- discussions with stakeholders including the Minister’s office, a number of industry associations, chambers of commerce and customers of AusIndustry.

1.12 Given that the change process was ongoing during the audit, AusIndustry was provided with audit findings as they emerged to enable it to consider them, and take any necessary action, as it undertook the change process.

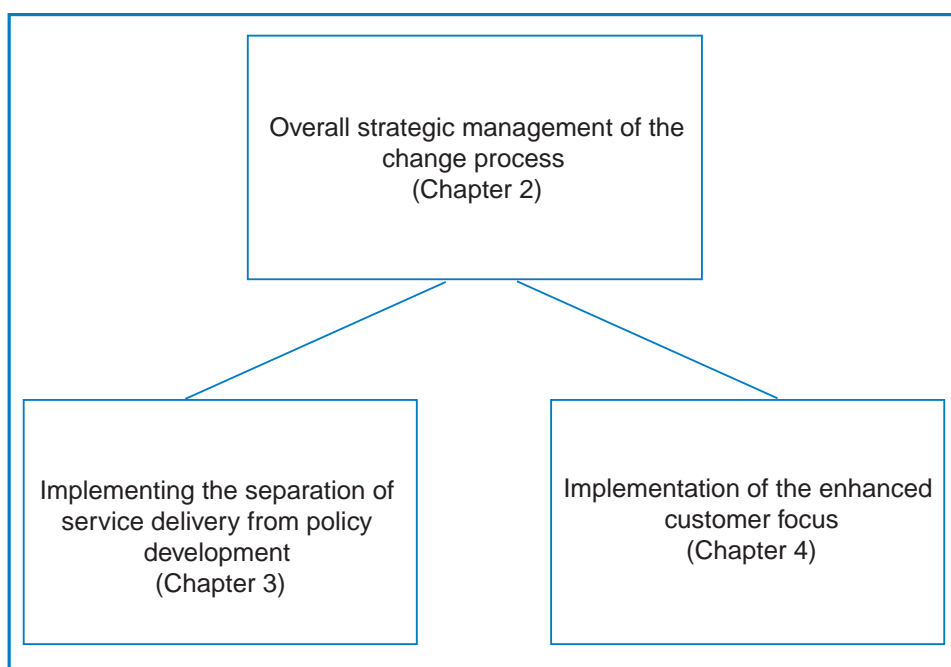
1.13 The audit was conducted in accordance with ANAO auditing standards. The cost of the audit to report tabling was \$270 000.

Report structure

1.14 The structure of the remainder of this report is outlined in Figure 1.5.

Figure 1.5

Structure of the remainder of the report



2. The Overall Strategic Management of the Change Process

This chapter reviews the progress in the implementation by ISR and AusIndustry of the change process at the strategic level. At the time of the audit, over two years had elapsed since the Government's announcement of the new policy for its programs of assistance for industry in Investing for Growth (December 1997). Although some notable changes have been achieved, there is still some way to go in fulfilling the Government's intentions.

ISR and AusIndustry's implementation strategy

2.1 ISR's planning for the implementation of the new arrangements commenced in February 1998, and continued well into 1999, with a number of aspects of implementation remaining to be completed. The implementation strategy is discussed below, with a timeline of key events summarised in Figure 2.1.

2.2 In February 1998 ISR established the Program Development Team (PDT) to provide the organisational model and the management strategies for the implementation of the new arrangements. The PDT was tasked with developing:

- a model partnership agreement between the policy and delivery agents;
- a model service level agreement (SLA);
- an initial list of programs to be delivered under the new service delivery arrangements;
- a new delivery agency structure; and
- completed SLAs for those products for which AusIndustry was to have responsibility.

2.3 The PDT report, *'Major Features of a New Model of Departmental Organisation'* in May 1998 reported on the first four of the five tasks set for it. However, the fifth task, the successful conclusion of negotiations on operational SLAs between policy and delivery agents, was not achieved (in fact the first SLA was not completed until June 1999).

2.4 The report contained proposals and recommendations on the following areas:

- an outline of a proposed model for a departmental restructure;

- a model partnership agreement and model SLA⁶;
- a proposed timetable for implementation with a categorising of which programs were to be delivered in future by AusIndustry and which were not;
- transitional arrangements including approaches to deciding on resources, handling people movement, and the implementation process (including a steering committee and implementation team);
- the outcomes and outputs measures to be developed;
- departmental structures, including structures for AusIndustry, the policy arm, and corporate and executive services;
- corporate governance structures;
- a communications strategy;
- an approach to measuring and improving performance; and
- systems support for the new arrangements.

2.5 A substantial number of the recommendations of the PDT report appear to have been accepted by ISR executive. However, consideration of the PDT report was not well documented, and it was not clear to the ANAO which recommendations of the report were endorsed for action. Some, including establishment of a steering committee and timelines for implementation were not adopted.

2.6 The ANAO also notes that not all ISR business assistance programs were transferred to AusIndustry. The general principle was that all programs should be transferred unless a strong case⁷ could be made to retain the program in the existing division.

2.7 Progress over the 12 or so months following the PDT report was somewhat limited.⁸ However, one significant development was the establishment in September 1998 of the Innovation Branch within ISR to separate policy advice for the five programs then delivered by AusIndustry from AusIndustry's service delivery role. However, shortly after the October 1998 election, the revised Administrative Arrangements

⁶ The purpose of the partnership agreement was to set out the agreed roles and responsibilities of AusIndustry; ISR's policy divisions and the Corporate Services Division. It was also intended to serve as an overarching framework for the development of program specific Service Level Agreements (SLAs).

⁷ 'A strong case' would, for example, include programs that were nearing termination, or where policy and delivery are inextricably linked (for example where there is considerable Ministerial discretion).

⁸ This period in part coincided with the October 1998 Federal election.

Orders (issued 21 October 1998) added a range of programs formerly delivered by the Australian Customs Service (ACS). The actual transfer of these programs was not affected until April 1999.

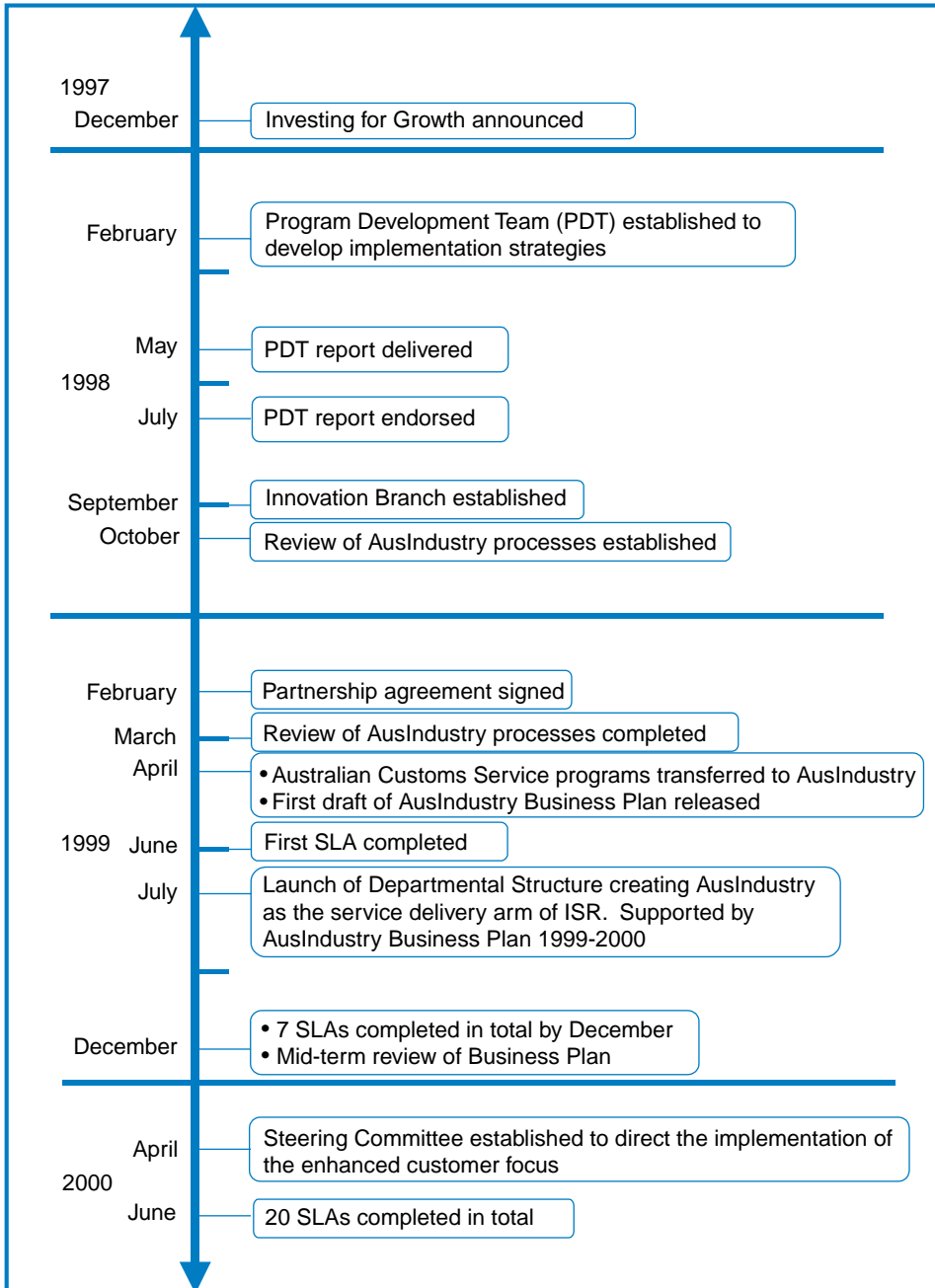
2.8 A further planning exercise, the AusIndustry Process Review, was initiated in October 1998 to review the full range of processes relating to the delivery and management of AusIndustry programs. It was to report at the end of March 1999 (it actually reported in early May 1999) and the target for implementation of its outcomes was 30 June 1999.

2.9 In the context of the limited progress over the previous 12 months, the ANAO notes that the May 1999 Process Review report considered it necessary for AusIndustry to 'relaunch itself' in its role as the main program delivery arm of the ISR portfolio. In addition, whilst the revised AAOs had foreshadowed the addition of former ACS programs to AusIndustry's responsibilities, the report did not address the integration of Customs programs (which occurred in April 1999).

2.10 In early 1999, AusIndustry began developing an AusIndustry Business Plan for 1999–2000, with a first draft circulated in April 1999. This overlapped and to a large extent superseded the process review, incorporating many of the review's proposals. The Business Plan came into effect in July 1999 and provided a comprehensive coverage of AusIndustry objectives, role, functions, and plans. However, the main focus of the Business Plan and most of the detail of the attachments related to maintenance and development of ongoing programs, rather than the implementation of the change process necessary to meet the *Investing for Growth* objectives.

2.11 In July 1999, a new departmental structure also came into effect creating AusIndustry as the service delivery arm of ISR. Policy responsibility was lodged with relevant divisions elsewhere in the departmental structure.

Figure 2.1
Timeline of implementation of new arrangements



Source: ANAO analysis

Progress and benefits achieved at the time of the audit

2.12 At the time of this audit, well over two years had elapsed since the December 1997 announcement by the Government of its new approach to business assistance programs in *Investing for Growth*. Whilst a considerable amount of the necessary change had been accomplished, there is still further work necessary before the new arrangements are in place and operating fully.

2.13 As a measure of the progress made in separation of the policy management and the product delivery functions, SLAs had been completed for only seven of the product delivery arrangements out of a possible 20 by early 2000. In respect of implementing the enhanced customer focus, whilst there had been some considerable planning and consultation, the actual implementation in the form of training and development of materials and systems to support the new approach commenced in early 2000.

2.14 Figure 2.2 summarises the extent of progress made at the time of the audit.

Figure 2.2

AusIndustry progress in implementation

	<i>Completed</i>	<i>Partially</i>	<i>Outstanding</i>
Overall management (Chapter 2)	<ul style="list-style-type: none"> • separation of policy and program delivery • integration of former ACS programs • reorganisation of AusIndustry • systematic overall management strategy with the inception of the AusIndustry Business Plan for 1999–2000. • mid term review of the 1999–2000 Business Plan • steering arrangements for the change management process 	<ul style="list-style-type: none"> • consolidated management strategy for the change process • integration of the existing management information systems into an AusIndustry wide system • an Activity Based Costing System to facilitate costing of expenditures by product • finalisation of overall change management timetable and process 	<ul style="list-style-type: none"> • risk management assessment of the change process as a whole

continued next page

Separation of policy and delivery (Chapter 3)	<ul style="list-style-type: none"> • seven SLAs by December 1998; a further 13 SLAs by June 1999 • more efficient operations globally than several years ago • re-engineering of the R&D Tax Concession program to become more customer focussed 	<ul style="list-style-type: none"> • some SLAs still under negotiation • re-engineering of the R&D Start program to enhance efficiency • a systematic analysis of the risks facing successful delivery of each product and the delivery process as a whole • re-engineering of delivery of selected products 	<ul style="list-style-type: none"> • a revision of the SLAs in light of experience to date
Customer focus (Chapter 4)	<ul style="list-style-type: none"> • firm of consultants engaged to advise on directions for the customer focus and develop an appropriate strategy • steering committee and management group to direct the implementation of the enhanced customer focus • suite of training and other initiatives to promote cultural change towards an enhanced customer focus • action plans for improvement in customer service have been prepared 	<ul style="list-style-type: none"> • a database to capture customer information comprehensively across all products and services • customer satisfaction surveys to establish a baseline • recruitment and training of Customer Focus Team Leaders to promote the enhanced customer focus to customer service managers • implementation of the strategy to enhance the customer focus 	

Source: ANAO analysis

2.15 While noting that the implementation of the new arrangements was not complete, the ANAO reviewed the extent to which the new arrangements were perceived as likely to achieve the benefits intended.

2.16 The intended benefits of the new arrangements included delivery of programs that are cost effective and clearly focussed on achieving the required outcome including a greater policy impact, and a clear focus on policy concerns. ISR staff had a range of views concerning achievement of the above benefits, but the comments were cautiously positive. It was considered that the changes implemented to date were assisting, or had

the potential to assist, the policy advising areas to work more effectively; and the Minister's office considered that after some early settling down problems, ISR and AusIndustry were providing more effective servicing of the information needs of the office. However, it was also generally accepted that further development and settling down is needed to produce the full benefits of the initiative. It was generally considered too early to say if program delivery had become more cost effective.

2.17 The benefits for the delivery agency are intended to include clear focus to its activities, allowing achievement of efficiencies in operation through a focus on marketing and the 'one stop shop', and timeliness in delivery. Progress in the realisation of these benefits was similarly limited due to delays in implementation. As noted above, only seven of the SLAs had been completed by the end of 1999, with the bulk not being completed until June 2000, and some still being negotiated.

2.18 The new arrangements were also intended to enhance customer focus and simplify interactions with business. At the time of the audit least progress had been made on this aspect of the reforms; with implementation of strategies to enhance customer focus only just being developed (discussed further in Chapter 4).

2.19 In summary, the ANAO noted that the benefits were only beginning to flow through at the time of the audit.

Strengthening the strategic management of implementation of the new arrangements

2.20 The ANAO examined ISR and AusIndustry's approaches to overall management to assess effectiveness in implementing the Government's policy objectives under the new arrangements and to make recommendations on any possible improvements. The ANAO is increasingly finding that one of the challenges emerging for service delivery agencies like AusIndustry is how to ensure, where there are multiple stakeholders, that the diverse interests they represent are adequately addressed.

2.21 As discussed above, the changes pursued by ISR and AusIndustry over the past two and a half years have sought to implement the separation of policy from delivery of business assistance and the enhanced customer focus. This direction is in line with the Government's policy objectives as set out in *Investing for Growth*. However, as described above, progress has been slow. The ANAO considered the extent to which the strategic management of the change process could be strengthened.

A structured approach to planning and management

2.22 Good practice for planning and managing the introduction of major change in an agency⁹ seeks to ensure that the implementation is underpinned by an appropriate structured approach to planning and management, in that it:

- ❖ includes a formal documented risk management approach;
- ❖ is undertaken with appropriate senior management overview and coordination arrangements at the operational level;
- ❖ is planned and monitored by using comprehensive and systematic project plans; and
- ❖ is undertaken with full identification of and monitoring against, the establishment costs and appropriate performance information.

2.23 The ANAO found that there was not a coordinated and clearly articulated management strategy for the change process *per se*; rather there were some separate aspects of the change management process, often covered incidentally to other elements of planning and development of product and service delivery.

2.24 The following paragraphs assess how AusIndustry's approach to managing the change process can be strengthened. These have been discussed with AusIndustry during the course of the audit, and many issues acted upon.

Risk management

2.25 Risk management allows the identification, analysis and assessment of risks that may prevent an agency achieving its business objectives and overall government objectives. It allows better outcomes in terms of program effectiveness and efficiency to be achieved. The *Guidelines for Managing Risk in the Australian Public Service*¹⁰ and the *Guidelines for managing risk in the Australian and New Zealand public sector*¹¹ provide a generic framework for managing risk and a reference point when developing risk management strategies. They emphasise the importance of systematically and comprehensively addressing risks. Such an approach produces assurance that key risks are identified and managed in significant change processes.

2.26 The ANAO found that AusIndustry did not have a systematic and documented risk management approach in relation to the change

⁹ Auditor-General Audit Report No. 1 1999-2000 *Implementing Purchaser/Provider Arrangements between the Department of Health and Aged Care and Centrelink*, p. 27.

¹⁰ *Guidelines for Managing Risk in the Australian Public Service*, MAB/MIAC Report No. 22, October 1996.

¹¹ *Guidelines for managing risk in the Australian and New Zealand public sector*, Standards Australia/ Standards New Zealand Standard *Risk Management AS/NZS 4360: 1999*

process. In particular, the Program Development Team Report (May 1998) did not consider explicitly the risks that pose a threat to achievement of its recommendations. Neither did the Process Review report (March 1999) address risk management. The ANAO considers that structured risk management provides a basic reassurance for management as to the likelihood of successful and timely completion of a change process. It also ensures the continuing re-assessment of the changing risk profile.

2.27 Since the inception of the 1999–2000 Business Plan, AusIndustry has undertaken risk management work on a product by product basis. For example, the Industry Research and Development Board (IRDB) has signed off on risk assessments that have been undertaken on the programs/products that fall within its scope. While this approach allows AusIndustry to assess the risks associated with the delivery of individual products, it does not allow an assessment of the risks involved in implementing the new service delivery arrangements and the change management process as a whole.

2.28 AusIndustry has acknowledged that a fundamental and comprehensive risk assessment needs to be undertaken for the whole of AusIndustry, particularly in relation to financial and change management issues.

Senior management overview and coordination

2.29 The Program Development Team recommended in May 1998 the adoption of a project management approach incorporating a system of key milestones and time frames, with leadership oversight by a steering group. It noted that:

it was 'critical that there be a group with clear responsibility to oversight the implementation of the new model'. And 'since the development of SLAs and the implementation of the policy/delivery split is to be an iterative process and will require high level leadership across the Department it is proposed the Steering Group comprise all Division Heads, and be chaired by the head of AusIndustry'. The team which takes responsibility for the implementation process itself should be established within AusIndustry.

2.30 Notwithstanding this, for most of the implementation period there was no steering group charged with oversight of the implementation of the service delivery reforms. Instead, oversight was exercised through the ISR leadership team meetings.¹² The meetings addressed issues when raised and reviewed monthly reports from AusIndustry managers on progress of operational matters, which could incidentally include reference to the change process.

¹² The ISR leadership teams were the ISR Corporate Leadership Group until late 1998 and then the ISR Leadership Team and the Portfolio Managers Meeting from December 1998 onwards.

2.31 This approach did allow the ISR leadership team to review progress and approve new directions at key stages. For example, it authorised the establishment and terms of reference of the Program Management Team in early 1998 and the Process Review in late 1998. However, in the absence of regular monitoring of the implementation of the action arising from these reviews, ISR was slow to recognise difficulties emerging in the implementation of the new arrangements. For example, the extent to which delays in establishing SLAs were not localised to particular areas but common to several was not recognised early on. Consequently, remedial measures to deal with difficulties that were arising in negotiating the agreements were not identified as early as they might have been. In the Senior Executive meetings 'change management' was not identified as a separate issue or standing agenda item.

2.32 In response to emerging audit issues, AusIndustry established a Customer Service Steering Committee to oversight implementation of the enhanced customer focus aspects of the change process in April 2000. In addition, AusIndustry now has an Executive Project Management Committee (EPMC) that reviews monthly progress reports from each project, addresses issues that may arise, ensures coordination across all projects and reviews project plans and recommends changes to them if needed. While the EPMC is moving toward an oversighting role it does not yet meet better practice needs for effective oversight to monitor the change process as a whole. This requires, *inter alia*, goals to achieve objectives by a specified date and its expansion to include broader stakeholder representation.

Planning and monitoring progress using project implementation plans

2.33 In a situation of fundamental and complex change for an agency, better practice suggests that progress in implementing new arrangements should be systematically monitored according to previously approved and clearly documented implementation schedules. This approach was not adopted in the case of introducing the new arrangements in ISR.

2.34 At certain key times targets for completion of the implementation of the changes had been set. The PDT in May 1998 set a goal of the end 1998 but this proved too optimistic; AusIndustry indicated that this was due to the occurrence of the Federal Election late in 1998.

2.35 The AusIndustry Business Plan for 1999–2000 did provide detailed coverage of AusIndustry's objectives, plans and targets for the work of each major branch and section of the organisation, with the emphasis on ongoing program operations. However, the Plan did not focus on the change process *per se*; accordingly, it did not set timings and targets for

key events necessary to bring about the new organisational working arrangements within a desired timeframe. Timings and targets for key events have been outlined in AusIndustry's 2000–01 Business Plan, but a target has still not been outlined for the end of the implementation of the change process as a whole.

2.36 A mid term review of the 1999–2000 Business Plan was undertaken in December 1999, and it was further reviewed during the drafting of the Business Plan for 2000–2001. However, in the absence of Business Plan targets and milestones in relation to the change process, the reviews did not evaluate how the change process itself was progressing.

Conclusion—effectiveness of strategic change management

2.37 The ANAO concludes that the use of a more structured and systematic approach to change management would have benefited AusIndustry considerably in the context of implementing the new arrangements. This is particularly so considering the fundamental and complex nature of the changes ISR and AusIndustry management were tasked with implementing. The use of such project management techniques enables¹³:

- the development of appropriate implementation structures that assist in coordination across the project and in clarifying the lines of reporting and accountability;
- the development of formalised project plans to assist in fully identifying and monitoring progress against implementation tasks and their milestones;
- the management of risks to the implementation; and
- the identification and management of resources required for the project.

2.38 The ANAO recognises that the major priority of AusIndustry in early 1999 was to place AusIndustry on a more business-like footing while maintaining the level of service to a considerably expanded customer base. This priority is reflected in the emphasis in the Business Plan on operational issues. However, implementation of the new service delivery arrangements was also a policy priority that warranted a higher degree of strategic management and focus on the relevant change management issues.

¹³ See Auditor-General Report No. 18 1997-98, *Management of the Implementation of the Commonwealth Service Delivery Arrangements*, p. 11.

2.39 In this respect, there would be value in having a strong emphasis on implementation and early completion of the overall change management strategy in future plans. Matters that could be addressed include:

- ❖ a team approach—involving people from the delivery, policy and management areas (for example human resource and financial management);
- ❖ the steps necessary to achieve an effectively functioning separation of service delivery from policy; and
- ❖ the approach to developing the enhanced customer focus.

2.40 A more systematic and integrated approach to project management would also provide greater assurance of achieving outcomes within desired timeframes.

Recommendation No.1

2.41 The ANAO recommends that AusIndustry adopt a structured project management approach for the remainder of the implementation of the new service delivery arrangements, including a structured approach to risk management, and specification of key milestones and time-frames.

ISR response

2.42 Agreed.

2.43 ISR agrees that a structured approach to the implementation of change management is essential to ensure that new processes and attitudes are embedded in a systematic and sustained way across the whole organisation.

2.44 Since its creation in its current form in July 1999, AusIndustry has progressively implemented a structured project management approach to all key projects, including change management projects. Specifically the preparation of formal project plans, including milestones and timeframes, has been made mandatory for identified projects and progress against project plans is monitored regularly.

2.45 With the promulgation of the 2000–2001 Business Plan, governance arrangements within AusIndustry have been re-engineered to provide for a formal monthly review by the Executive of all key Business Plan and change management projects. In addition two other key monitoring arrangements have been developed, building on earlier mechanisms:

- the establishment of a formal steering committee to monitor and guide the AusIndustry On-line and Management Information System project; and

- the establishment of a Customer Services Steering Committee to ensure that all projects which have a direct bearing on customer relations are proceeding satisfactorily and are being properly coordinated across the organisation.

2.46 With regard to risk management, as the ANAO has acknowledged, AusIndustry has undertaken a good deal of work to assess and manage the risks associated with the delivery of individual products. AusIndustry agrees with the ANAO that further work now needs to be done to develop a strategy for the overall management of risks associated with implementing new service delivery arrangements. This has been identified as a priority in AusIndustry's 2000–2001 Business Plan.

2.47 At the time of writing, AusIndustry has embarked on a process of staff consultation with a view to implementing new structural arrangements that will provide a stronger focus on driving organisational change, as well as on the ongoing work of the organisation.

Broader governance arrangements

2.48 AusIndustry's role in the provision of the Government's assistance to business is to be a conduit for seamless delivery of services to the customers. That is the focus is primarily on the citizen or business receiving the services they require rather than on the agency and its delivery of services. This reflects an increasing move by government towards multiple delivery of services, regardless of which agency is responsible for particular services, with technology such as the internet helping to make this happen.

2.49 Under such arrangements there are, to varying degrees, shared responsibilities for shared outcomes. However, at the same time agencies are also responsible for achieving their individual outcomes. Ensuring the effectiveness of this delivery process requires an appropriate corporate governance framework involving a partnership between those different parties with key responsibilities for the customer interface, service delivery and planned outcomes. There needs to be a governing relationship between bodies to achieve outcomes, and consideration given to a partnership arrangement that sits above the corporate governance framework to make things work.

2.50 At present these broader stakeholder interests are not represented in AusIndustry's governance structures for service delivery. How to address these corporate governance challenges is, we suggest, a matter which agencies such as AusIndustry will need to give increasing focus in the future.

Management information

2.51 Management information provides the essential underpinning for successful planning and change management. In this context the ANAO assessed whether AusIndustry has reliable information to monitor and evaluate performance, including systems to assess changes to its efficiency in the utilisation of resources.

2.52 AusIndustry has inherited a number of information support systems that service different product areas. These systems vary in content, format, accessibility and the quality of information they provide for managers. Currently the systems are not integrated into an AusIndustry Management Information System (MIS). As a consequence, policy areas have not been able to access directly information on delivery of programs, either relating to individual products and firms, or to overall performance information. This information often had to be requested from the delivery areas as a particular and often labour intensive exercise and response times were dependent on the delivery area's resources and priorities.

2.53 Furthermore, coordination and sharing of information on customers, one of the key elements in enhancing AusIndustry's customer focus, is dependent on more effective management information systems.

2.54 AusIndustry has recognised the need for a comprehensive, integrated MIS and, as a first step, commissioned a major scoping study in 1999–2000 to develop a strategy for future MIS development. It has now obtained funding to develop a new MIS and implement an on-line strategy in line with the Government's on-line agenda. It will take several years to implement this strategy. As a first step, AusIndustry plans to integrate the existing management systems into a new AusIndustry wide system. However, the integrated program management system is not expected to be finalised until 2001–02. Program reporting and executive information needs will not be met until 2002–03.

Resourcing information

2.55 Effective service delivery by organisations such as AusIndustry is supported by systems that assist in allocating resources appropriately to outputs (ie. the products and services) having regard, *inter alia*, to workload and the level of risk associated with the product.

2.56 Financial information forms a key part of the information set for many strategic and operational decisions. Conventional costing systems will provide management with an accurate view of the unit costs of outputs. However, on its own, this information will not answer key

questions regarding whether resources have been consumed efficiently in producing outputs; and if not, how costs can be reduced while maintaining effective delivery of goods and services.¹⁴

2.57 As a result of the Government's decision to implement an accrual based outcomes and outputs framework, agencies are required to cost their outputs, that is, determine the cost of the products and services they produce.¹⁵ This form of costing can provide agencies with:

- an improved knowledge of what they are delivering and at what cost;
- an improved basis on which they are funded, in that it allows judgements to be made about pricing and comparisons with alternatives; and
- more transparent information for making decisions about allocating resources.

2.58 AusIndustry's current financial information provides departmental cost allocations by cost centre and activity. However, the cost centres are not all in line with its products and services. While large AusIndustry products and services such as R&D Start are allocated a separate cost centre, some others are grouped together in terms of the area they address, such as venture capital. Thus, the information available from the current finance and accounting systems does not adequately support management decisions on resource allocations for products and services. Limitations in AusIndustry financial management information systems also significantly limit AusIndustry's ability to assess whether efficiency has been increased, or to what extent. In this context the ANAO notes that one of the aims of *Investing for Growth* was to ensure that delivery of programs becomes more cost effective.

2.59 In its Business Plan Status Report of April 2000, AusIndustry stated that it is now operating more efficiently than any time in the past. The reasoning behind this statement was as follows:

- the number of products and services delivered has increased from five at the end of 1998 to over 20 currently;
- the number of customers had risen to 5700 in 1999–2000 from 4300 prior to April 1999 (an increase of some 33 per cent); and
- departmental costs have reduced by 1.2 per cent.

¹⁴ ANAO Better Practice Guide, *Building a Better Financial Management Framework—Defining, presenting and using financial information*, November 1999.

¹⁵ *Specifying Outcomes and Outputs—Implementing the Commonwealth's Accrual-based Outcomes and Outputs Framework*, DoFA, 1998.

2.60 At the global level these data support the view that AusIndustry is operating more efficiently compared to several years ago. However, the ANAO notes that while the above initiatives will give AusIndustry accurate information on resource allocation for the future, the limited information currently available has not permitted assessment of efficiency gains over time on a product by product basis.

2.61 AusIndustry has recognised the need to have such strengthened resource information systems and are trialing an Activity Based Costing (ABC) system. AusIndustry considers that strengthened costing information will provide a clear picture of resource allocation between and within products and services. This will also facilitate internal benchmarking and provide information for process re-engineering.

Recommendation No.2

2.62 The ANAO recommends that AusIndustry establish adequate methods to enable it to gain accurate information on the costs associated with the delivery of its products and services.

ISR response

2.63 Agreed.

2.64 ISR agrees that better resource information, such as that which can be obtained through Activity Based Costing will enable it to make more informed decisions about internal resource allocation and to benchmark process costs.

2.65 As the ANAO notes, AusIndustry has trialed an Activity Based Costing system in selected parts of the organisation. AusIndustry is now in the process of extending the trial throughout the whole organisation in order to obtain benchmark data for the first quarter of the 2000–2001 financial year. AusIndustry is implementing Activity Based Costing within an overall framework determined for the Department of Industry, Science and Resources. This framework provides ample flexibility for the particular information requirements of a service delivery organisation such as AusIndustry to be met.

3. Implementing the Separation of Service Delivery from Policy Development

This chapter reviews the implementation of the new arrangements, particularly the separation of policy from service delivery by means of Service Level Agreements (SLAs), between AusIndustry and other relevant parts of ISR, and the management of that change process. In general, the process is progressing satisfactorily but it has taken a long time, delaying the realisation of the intended benefits of the new arrangements. Funding arrangements and their relationship to Service Level Agreements are also problematic.

Introduction

3.1 In the separation of policy development and product delivery in service delivery organisations, Service Level Agreements (SLAs) form a central administrative linkage in achieving a successful working arrangement between the policy and product delivery functions. The SLAs have the purpose of defining the terms of agreement on objectives and operational arrangements and performance measures and as such, the SLAs form the core of the partnership arrangements and are fundamental to their successful operation.

3.2 The ANAO examined the first seven SLAs completed, which were the only ones completed during the audit fieldwork. The first four SLAs to be negotiated were for the long term ISR programs for research, innovation and venture capital. Negotiations commenced in approximately July 1998 between the Innovation & Science Division and the Industry Policy Division as the policy owners and the Program Management Group (PMG) and Customer Service Group (CSG) in AusIndustry as the deliverers. The SLAs were for:

- the Pooled Development Funds Program (completed 25 June 1999);
- the Innovation Investment Fund (completed 31 August 1999);
- the R&D Start Program (completed 28 October 1999); and
- the R&D Tax Concession (completed 28 October 1999).

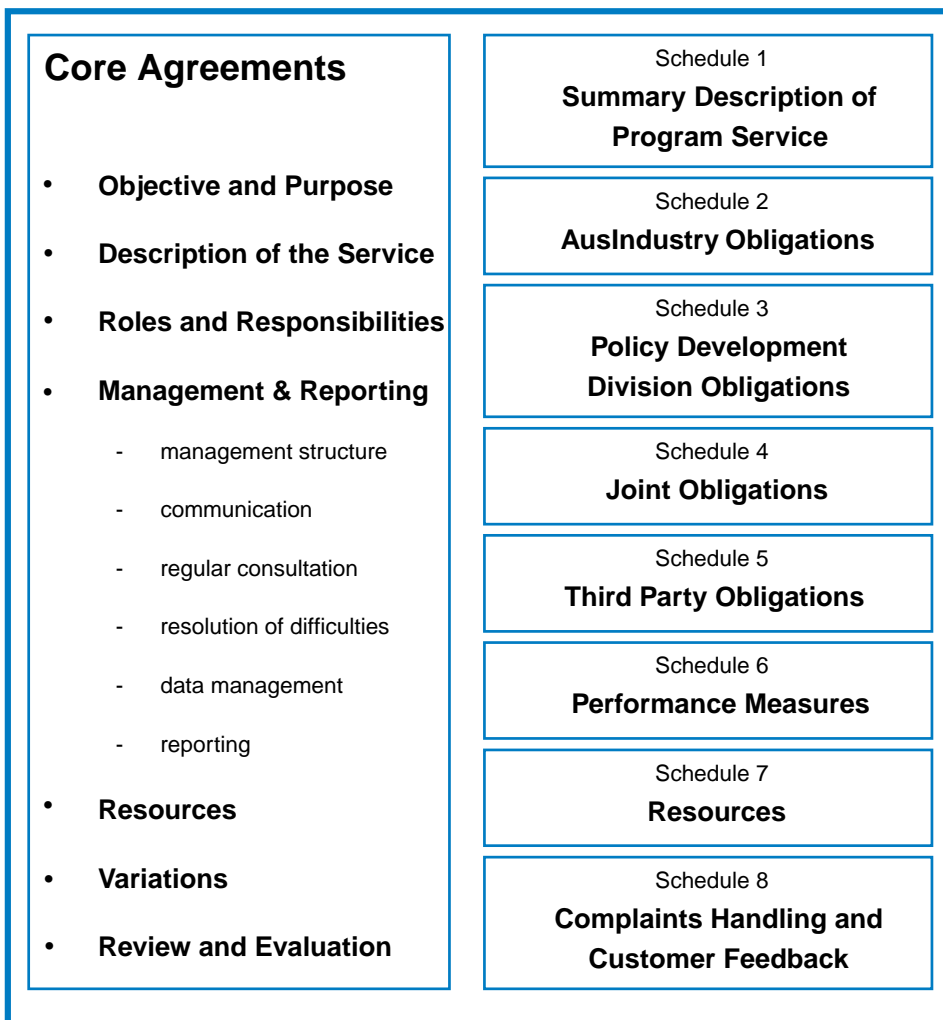
3.3 The other three SLAs were negotiated largely in the second half of 1999 and included the programs transferred from the ACS. The agreements were between the Manufacturing, Engineering and Construction Division (MEC) as policy owners, and PMG and CSG in

AusIndustry as the deliverers, and covered:

- the Shipbuilding Bounty and Innovation Scheme (completed 2 October 1999);
- the Printing Industry Competitiveness Scheme (completed 24 November 1999); and
- the Passenger Motor Vehicle Manufacturing Plan (completed 14 December 1999).

3.4 The coverage and content of the ISR–AusIndustry service level agreements is demonstrated in Figure 3.1.

Figure 3.1
ISR–AusIndustry Service Level Agreements



3.5 The ANAO examined how effectively AusIndustry and other relevant parts of ISR had introduced the new arrangements, including:

- the ISR approach to service level agreements;
- the time taken to negotiate and complete the agreements;
- the content of the agreements, including provision for risk assessment, performance information, and resources; and
- operation of the agreements, including monitoring of performance and efficiency gains.

ISR approach to service level agreements

3.6 The ISR/AusIndustry service level agreements have been formulated in the context of a partnership rather than a separation of purchaser from provider. The distinction is an important one. In a typical purchaser-provider arrangement, the SLA is usually between parties where the service provider is at arm's length from the organisation on whose behalf it is providing the service. From the purchaser's side there is normally a statement of the type and scale of the services required and from the provider a statement of the cost of providing these services. There would normally be a form of tendering or negotiation process to determine the appropriate fee for varying levels of service, taking into account the resources necessary to provide it. In the typical purchaser-provider arrangement, the customer on whose behalf the service is provided does not have responsibility for the day to day management of resources.

3.7 However, AusIndustry does not stand at arm's length from the policy divisions of ISR. AusIndustry a Division of ISR, reports to the Secretary, as do the other divisions that are the other parties to the agreements. This relationship between the parties has implications for the management and operation of the new arrangements, and means that the agreements struck have been more in the nature of partnership agreements rather than purchaser-provider arrangements.

3.8 This distinction is reflected in the model agreement developed by the Program Development Team (see 2.4), which is based upon a partnership rather than a contract for service. However, the ANAO found that not all those involved in negotiating SLAs had made this distinction and there was some confusion among middle managers over the nature of the change being implemented. This confusion appears to have been one of the factors contributing to the lengthy nature of the negotiations.

The time taken to complete the SLAs

3.9 There are clear operational advantages in completing the SLAs quickly as:

- this enables efforts to be focused on cost effective delivery of the agreed services, rather than on lengthy internal negotiation;
- SLAs formalise corporate governance arrangements in that they provide clear definitions of responsibility and a clear understanding of relationships between the parties and those entrusted to manage resources and deliver outcomes; and
- they provide clarity of arrangements which can contribute to an atmosphere of cooperation and partnership.

3.10 The time taken to negotiate the SLAs was considerable. Although the target set in the PDT report was 5–10 weeks for completion of the SLA negotiating process, the time taken for the first four SLAs was substantially longer. The earliest was signed off on 25 June 1999, some 12 months after the PDT report, and the remaining three SLAs were signed over the following four months.

3.11 The time for reaching agreement for the second tranche of three programs, (ie. those transferred from ACS) was less, varying between 18–38 weeks. At the end of the audit AusIndustry had completed a further 13 SLAs in substantially less time than the first seven SLAs.

3.12 It is important to note that the ANAO found no evidence that the delays in developing SLAs had reduced the quality of service to customers. However, the extended process has inevitably delayed the realisation of the intended benefits of the new arrangements.

Content of AusIndustry Service Level Agreements (SLAs)

3.13 To assist the principles of good corporate governance between the parties to an agreement, effective arrangements will include:¹⁶

- specific details describing precisely what service is to be provided, who is to provide it, how much service is to be provided and when it is to be provided. It will include a clear identification of roles and responsibility, plus arrangements for ongoing coordination, resourcing, reviews, risk management and performance information collection, monitoring and reporting; and
- planning for the evaluation of the implementation of the agreement, to inform similar implementations in future.

¹⁶ See Auditor-General Audit Report No.1 1999-2000 *Implementing Purchaser/Provider Arrangements between the Department of Health and Aged Care and Centrelink*, p. 65.

3.14 The full criteria used by the ANAO in assessing the SLAs are at Appendix 2.

3.15 The ANAO examined the content of the first seven SLAs agreed and found that the SLAs had a number of strengths against these criteria, particularly with respect to the clear specification of:

- the respective roles and responsibilities of AusIndustry and the departmental policy divisions (this formed the most substantial part of the agreements reviewed);
- the duration of the arrangement and the timing for negotiating a replacement arrangement;
- on-going consultative mechanisms; and
- mechanisms to vary the arrangements and for dispute resolution.

3.16 However, other aspects of the SLAs require further clarification and development to fully assist the on-going management of service delivery. These are discussed below.

Specification of services to be provided

3.17 An essential prerequisite for an SLA is the clear definition of what is to be provided under the SLA. In neither of the two groups of SLAs was this done in a clear and unequivocal way. The second tranche of SLAs (3.11) were generally clearer in this respect in so far as they included a short summary listing of what was to be delivered, but did not address the specifics of the product delivery. However, for the first four SLAs, instead of a list of services there was a lengthy description of the program content without defining the contributions of each party; hence the respective contributions could only be interpreted, with some persistence, from the other sections in the SLAs on roles and responsibilities.

3.18 Given the short time during which the SLAs had been operational at the time of the audit, the lack of clear exposition of services has not yet caused any difficulties. However, there is the possibility that, with the passage of time and changes of staff, misunderstandings could occur. It is preferable that a clear definition of services to be provided is made in the part of the agreement so labelled.

Level of service

3.19 A significant shortcoming of the SLAs is the absence of specification of the level and quantum of service to be provided. The assumption behind the SLAs appeared to be that the agreement applied to the whole of the product delivery as it stood at time of signing the agreement. The ANAO noted that whilst each agreement stretched over several years (ie. variously, between two years and '*the life of the program*'), there was no provision for the likelihood that the scale of the delivery

task will change over the life of the agreement. This, combined with the lack of a formal agreement about resources (see 3.23), potentially weakens management's ability to plan for, and smoothly adapt to, changes to delivery.

Performance information that is consistent with good practice

3.20 There has not been a consistent approach to performance information in the SLAs, and approaches adopted have had limitations. Some of the measures are potentially very useful being based on program objectives and related to key measures of success. In particular, where measures related to operational processes, many were quantified, readily measurable and with an indication of acceptable levels of service. However, in the earlier SLAs, measures were nominated for some aspects of performance, notably relating to outputs and outcomes, but without any indication of the acceptable or target levels for performance. In some of the later SLAs, the number of measures and the amount of work involved in collecting them would be considerable, to the extent that it is doubtful if all of them could be collected or assessed accurately or cost-effectively.

3.21 To improve the usefulness of performance measures in SLAs, the ANAO suggests that parties to the agreements focus on establishing a smaller number of measures that are linked to objectives, measurable in a meaningful way, and easily collectable. AusIndustry has acknowledged the need to improve the utility of performance information.

Process for managing risk

3.22 The SLAs recognise the need for a process to manage risk and note that both parties, or in some cases one (usually the deliverer), will be responsible for devising a risk management strategy. AusIndustry has advised that it has developed product specific risk management strategies, subsequent to finalising the SLAs.

Resourcing in SLAs

3.23 In a conventional purchaser-provider arrangement, specifying resources to be applied to services is an essential part of governance arrangements, providing for transparency, accountability and clarity between the parties to the agreement as to the scale of the service delivery task and the operational arrangements. However, the SLAs in most respects did not clearly detail the levels of the services to be provided under the agreements, nor the costs for providing the services.

3.24 There are in fact practical constraints in detailing resources within the SLAs for the new arrangements set up for AusIndustry service delivery, since there are over 20 SLAs to be managed. Further, the delivery arrangements for some products and services require relatively

small resources and the workload is not consistent throughout the year. Flexibility in the management and allocation of resources, notably staff, between products and services is therefore important. In these circumstances dividing AusIndustry resources between many SLAs, in a series of detailed commitments, would limit management flexibility and increase the burden of performance reporting.

3.25 However, the absence of a meaningful agreement regarding resources in the SLAs also weakens the management framework. While the relationship between the parties involved in the agreements is important and considered by those involved to be sound, experience has shown that good working relationships in such service delivery arrangements are based upon sound formal agreements that enable all parties to have agreed understanding of all relevant matters including services to be delivered for funding levels.

3.26 The ANAO considers that ISR should consider ways of structuring the service level arrangements to address resourcing of service levels more effectively. One option could be an arrangement in which SLAs are made not on the basis of each product and service to be delivered, but for each major client in the policy divisions. This would have the effect of grouping several products within one SLA, reducing the number of SLAs.

3.27 The major part of such an agreement could, for example, deal with the partnership arrangement and with the resources to be provided by AusIndustry to deliver the type and volume of services required for the group of particular policy area's products, together with appropriate performance measures. A subordinate part of the agreement could spell out the respective roles and responsibilities and risk management strategies for each product. This would provide for transparency and accountability as well as a measure of management flexibility within each of the SLAs.

Recommendation No.3

3.28 The ANAO recommends that AusIndustry strengthen existing SLAs to include:

- performance measures which focus on a smaller number of measures that are linked to outputs and planned outcomes, assessable, and readily collected; and
- specification of levels of service to be provided; this might be achieved by reducing the number of SLAs.

ISR response

3.29 Agreed.

3.30 ISR agrees that the present SLA system governing the delivery of AusIndustry's products and services could be improved.

3.31 Specifically, ISR agrees that the current arrangement under which there is one SLA for almost every product or service does not acknowledge or reflect the synergies or economies which can result from co-locating an increasing number of programs within the one service delivery agency.

3.32 At a more fundamental level, the SLA system does not provide a sound basis for determining resource levels for AusIndustry as a whole. In any event, resource levels for AusIndustry, as is usually the case with Divisions of Departments of State, are developed through the budget appropriation process rather than through SLAs.

3.33 At the time of writing AusIndustry has prepared a proposal for consideration by the ISR Executive to reform the SLA process, in part along the lines suggested by the ANAO.

Reporting against performance measures

3.34 Whilst AusIndustry and the relevant policy divisions of ISR have been working together in a de facto arrangement of separate roles for some considerable time, not a lot of this experience has been with the benefit of a completed agreement. For this reason it was too early at the time of the audit to fully assess the new arrangements.

3.35 However, adequate performance information is an essential aspect of management of such reforms. Indeed, one outcome intended for the new arrangements for service delivery was an improvement in reporting on performance, particularly on those measures agreed to in the SLAs. AusIndustry has begun monitoring compliance with SLA performance reporting requirements. However, the frequency and standard of reporting of performance information is uneven across the various service level agreements. AusIndustry has acknowledged the limitations and initiated action to improve compliance by its managers with reporting requirements.

Re-engineering and efficiency

3.36 As discussed in 2.60, with the information currently available it is not possible to establish the extent of efficiency gains from the new arrangements. However, AusIndustry is seeking to achieve efficiencies

in the delivery of its products and services through re-engineering product delivery processes. It has established a specialist area within AusIndustry devoted to re-engineering its program delivery systems. One re-engineering project has been completed and another is underway.

3.37 The first program to be re-engineered was the R&D Tax Concession program, which was re-engineered from a perspective that places priority on customer service. The process included, *inter alia*, a change from the traditional method of performing client visits in an audit/compliance manner, to a more open, advisory approach. It involves AusIndustry staff visiting businesses that are new to the program and explaining the program and providing information on other AusIndustry products and services. Preliminary indications, based on the opinion of staff involved and supported by some customer feedback, is that the new approach is being favourably received.

3.38 At the time of the audit, AusIndustry was re-engineering the R&D Start program, AusIndustry's largest grant program, to determine what efficiencies can be gained from simplifying process.

4. Implementation of the Enhanced Customer Focus

This chapter reviews progress made by AusIndustry towards the Government's objective of improved customer focus. Whilst, at the time of the audit, the strategy was in place, a significant proportion of the implementation was still under way.

Introduction

4.1 AusIndustry's plans to bring about cultural change in support of a greater customer service focus within the organisation are a key part of the *Investing for Growth* reforms.¹⁷ At the time of the audit, the implementation of the enhanced customer focus had commenced but was some way from completion. The ANAO was, therefore, only able to examine plans and progress against plans, rather than outputs and outcomes achieved. During the course of the audit, the ANAO made several suggestions concerning the ongoing development of the customer focus which were adopted by AusIndustry. These are noted below.

4.2 The promotion of a greater customer focus began, in earnest, as part of the 1999 AusIndustry Process Review when a firm of consultants was engaged to advise on directions and develop an appropriate strategy. Implementation of the strategy began in late 1999 and continues in 2000.

The characteristics of successful customer focus

4.3 The MAB-DIST *Better Practice Guide to Quality in Customer Focus*¹⁸ recognised that successful customer focused organisations are those which provide quality customer service. Research has shown that client focused organisations direct their attention simultaneously to:

- people related issues—in order to create a customer service culture within the organisation and to ensure that staff have the confidence and capability to serve their customers well;
- customer relations—in particular by ensuring information flows between the organisation and its customers so that the organisation can appreciate the customers' needs and provide assurance to the customers that their needs are being met; and

¹⁷ *Investing for Growth* calls for a single delivery agency with a clear client focus on the needs of business and simplified interaction between business and Government

¹⁸ based on MAB-DIST (joint publication) *The Better Practice Guide to Quality Customer Service* (MAB-DIST November 1997).

- organisational arrangements—so that they can deliver service in a customer friendly way and continue to improve that capability.

People related issues

4.4 AusIndustry has undertaken a suite of initiatives, which provides a good basis for achieving the required cultural change, including:

- consultation, involving all AusIndustry staff, on the implications of the customer focus, aided by a specialist consultant;
- the creation of a new Customer Service Manager (CSM) role, which defines how AusIndustry officers are to provide improved levels of customer service in their dealings with business and industry;
- the selection of a group of Customer Focus Team Leaders to propagate the CSM role in each major area of AusIndustry;
- a range of seminars on the role of CSMs and in-house seminars about the different AusIndustry products and services; and
- on-the-job training in customer service through contact with R&D Tax Concession customers (an initiative under the title TaxRed—see below).

4.5 The training and other initiatives related to the enhanced customer strategy aim to take in the needs of all AusIndustry staff. Among these, it is the regional office staff, the Customer Service Managers (CSMs), who will be the first and most frequent point of contact between AusIndustry and its customers. AusIndustry intends that the CSMs will become the dedicated manager for a number of customers covering a range of products and services in response to the needs of the firms concerned. In regional offices the majority of staff will be either full or part time CSMs.

4.6 AusIndustry intends that the customer service arrangements will have a range of support elements. Following completion of audit fieldwork, AusIndustry advised the ANAO that it has now developed its AusInside website for distribution of program support documents such as procedure manuals, guidelines, forms and product training material. The product training package contains product knowledge information required by CSMs and self assessment tests. AusIndustry is also in the process of developing a database to capture customer contact information, including information on the nature of the customer's enquiries and AusIndustry's response to the enquiries.

4.7 As mentioned previously, it is too early to comment on the effectiveness of implementation of these changes. However, the cultural change initiative is one of the most important elements of AusIndustry's

drive for improved customer service, and its approach provides a good basis for achieving this change, including staff consultation and participation. The ANAO found that regional offices expressed a strong commitment to these changes.

Customer relations

Establishing better ties with the customers

4.8 In discussions with the ANAO, some industry associations commented positively on their relations with AusIndustry and on the role and work of regional offices. It was considered that AusIndustry was achieving some success in developing longer-term relations with industry.

4.9 However, some industry views reflected a degree of confusion over the respective roles of AusIndustry and Austrade, suggesting that this is an area that warrants further clarification. AusIndustry has recognised this situation and considers that there would be considerable benefit in terms of customer service if its contacts with customers were expanded. AusIndustry is currently seeking to achieve this by a number of means such as joint presentations, (with Austrade and State offices responsible for business assistance), to industry association meetings.

4.10 Another major initiative followed the re-engineering of the R&D Tax Concession product delivery process in late 1999. As well as improving delivery of the particular product, AusIndustry is using the R&D Tax Concession scheme to provide a wider platform for the enhanced customer focus. AusIndustry officers now visit each new registrant for R&D Tax Concessions and intend to visit one in four of the current registrants in each year. During these visits, as part of the 'one stop shop' customer focused approach, CSMs provide business with information on other AusIndustry products and services. This is intended to give firms the opportunity to be aware of the wider range of possible assistance available to them.

4.11 Evidence suggests that the approach is improving communication between AusIndustry and its customers. AusIndustry staff consider that the advisory visits have been well received by businesses contacted to date, and associations contacted by the ANAO confirm this impression.

Establishing customer expectations

4.12 Defining customer expectations is a critical aspect of a customer service approach. AusIndustry has pursued this end by a variety of means, including:

- customer research conducted by AusIndustry, specifically work during the Process Review in 1999 when customer focus groups were used to gather information on customer needs and perceptions of AusIndustry;
- feedback from regional offices through their customer contacts; and
- the results of customer satisfaction surveys (see below) are used to maintain a focus on customer expectations.

Establishing customer satisfaction

4.13 At the time of the audit, AusIndustry had conducted customer satisfaction surveys for seven programs in late 1999 and early 2000. Of the surveys conducted to date, the survey of CRCs consisted of a written questionnaire survey; and the other six were telephone interview enquiries. The surveys were by way of a pilot exercise and are to be extended to the remaining AusIndustry customers for other products. The aim is to establish a base line of customer satisfaction from which to assess improvement.

4.14 The surveys¹⁹ specifically addressed:

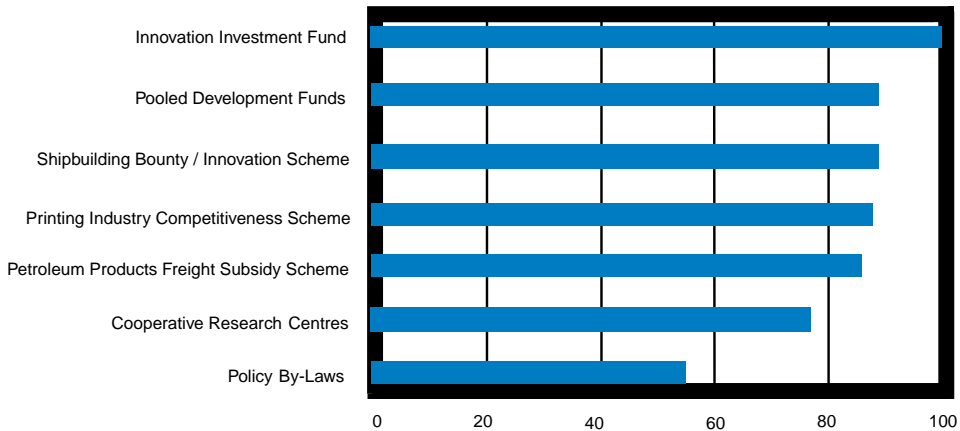
- the effectiveness of AusIndustry's promotion of the product;
- the level of staff service;
- the availability of information;
- the application process;
- the assessment process; and
- the reporting process;

4.15 The levels of satisfaction recorded against the six main aspects of AusIndustry's service provision noted above, for the most part met with moderate to strong approval from customers (83 per cent average). For example, Figure 4.1 shows the overall customer satisfaction ratings for the seven products that is, the average rating across the six aspects addressed.

¹⁹ For the written questionnaire and for one of the telephone enquiries, the response rate was moderately low (58 per cent and 54 per cent respectively). For the other five telephone surveys the response rates were in the range of 79-92 per cent.

Figure 4.1

Customer satisfaction ratings 1999–2000 (per cent)



Source: AusIndustry

4.16 AusIndustry has also had very positive feedback on its hotline, which is operated as part of the Business Information Service. The hotline deals with people wanting help in relation to starting a business or running a business, and operators access a database drawing together business information from the three layers of government. AusIndustry have indicated that callers value the ‘one-stop-shop’ nature of the service, and 98 per cent of users surveyed express satisfaction with the service.²⁰

4.17 AusIndustry has also used its customer satisfaction surveys to identify areas for improvement in customer service. In particular, the surveys indicate that customers consider that there is some room for improvement in the following areas:

- AusIndustry staff’s understanding of customer needs;
- the provision of comprehensive advice about the range of issues raised by customers;
- keeping customers informed about developments in programs.

4.18 Action plans for improvement have been prepared in response to the customer feedback and AusIndustry advises that progress against the plans is regularly monitored by a customer focus team responsible for analysing the data and producing proposals to implement strategic changes.

²⁰ The contract with the outsourced provider specifies that all calls are answered within 10 seconds; the average answer time is within five seconds. On average 4-5 per cent of callers are surveyed each month for customer satisfaction. Callers responses are either “satisfied” or “not”.

4.19 In discussions with the ANAO, industry associations and individual firms also gave largely positive views of AusIndustry service delivery performance. However, some areas for improvement were also identified in these discussions, to some degree echoing those identified in customer satisfaction surveys. These include:

- AusIndustry officers sometimes do not sufficiently understand the nature of high technology business. These comments in part related to technical issues but more significantly to the short time horizon of small high technology research based ventures and their needs for minimum delay in securing new capital; and
- while the early stages of assistance (such as selection, contracting etc) were usually well handled by AusIndustry, difficulties could emerge in the servicing and monitoring period, especially if there were staff changes that disrupted AusIndustry corporate knowledge of individual firms.

Organisational arrangements

4.20 AusIndustry's arrangements to support enhancement of its customer focus, include the restructuring the delivery of more than 20 products and services to provide a single point of contact for customers. This involved:

- restructuring each regional office to better suit the business needs of customers in the region; and
- designing a structure to combine in one place the necessary advice and specialist services in relation to often complex and varied products and services.

4.21 As noted in Chapter 2, overall strategic management is of great importance when implementing major change. The ANAO discussed the need for strategic management in respect of the enhanced customer focus, with AusIndustry early in the audit. It is in this area that AusIndustry has responded by establishing a high level steering committee to oversight implementation of the enhanced customer focus.

4.22 The ANAO's interim observations on the implementation of the enhanced customer focus strategy are cautiously positive, while recognising that customer focus is an element of operations that requires continual reinforcement and monitoring.

Restructuring within AusIndustry regional offices

4.23 AusIndustry has pursued a flexible approach in terms of how its regional offices organise themselves to deliver their services. This is

because each region is considered to have a distinctive mix of customers and no single organisational structure would be appropriate for all regional offices. Therefore, each regional office has devised an organisational structure to suit its particular customer needs.

One stop shop and CSM role

4.24 *Investing for Growth* seeks a 'one stop shop' as a means to provide a simple and comprehensive service to customers. However, it could not be expected that each AusIndustry officer would be sufficiently familiar with all AusIndustry products and services to be able to deal effectively with sufficient accuracy to all customers' needs. Accordingly, AusIndustry seeks to provide a broad spectrum of advising on a wide range of AusIndustry products and services at the first point of contact, with specialist attention where necessary, once a customer has become committed to a particular product or range of products. AusIndustry has expressed its commitment to move customers smoothly from the level of general advice at the first point of contact to specialist attention where management of product delivery is handled by one particular regional office.

4.25 In practical terms the arrangement involves each regional office having staff capable of providing advice to customers on the whole range of AusIndustry products and services and on the range of relevant services to business provided by other Commonwealth, State and Local Government bodies. These officers are the Customer Service Managers (CSMs). In addition, for certain specific products one regional office has a lead role for a particular product delivery. This involves the provision of specialist advice to CSMs and customers on more complex aspects of the product. The location of the specialising regional offices coincides with the location of a major part of the customer base for the particular product.

4.26 The ANAO notes that it is too early to comment on the effectiveness of the arrangements.



Canberra ACT
30 November 2000

P. J. Barrett
Auditor-General

Appendices

Appendix 1

AusIndustry products and services

<i>PRODUCT OR SERVICE</i>	<i>AIM</i>	<i>CUSTOMERS</i>	<i>DURATION AND COST</i>
<p>INNOVATION R&D Start, Grants and Loans Competitive, merit based grants and loans program that supports businesses to undertake research and to undertake research and development and related activities</p>	To increase the number of R&D projects with high commercial potential undertaken by companies	Australian businesses undertaking research and development activities; Funding decisions made by the Industry, Research and Development (IR&D) Board Estimated total customer base 2000–2001: 620	Commenced 1998; \$1 billion over eight years from 1998–99 Cost for 2000–2001: \$170.2 million
<p>R&D Tax Concession Broad-based, market driven tax concession which allows companies to deduct up to 125 per cent of qualifying expenditure incurred on R&D activities when lodging their corporate tax return</p>	To increase the amount of R&D being conducted within Australia	Australian businesses undertaking eligible R&D activities registered annually with the IR&D Board Estimated total customer base 2000–2001: 3200	Introduced 1985; 1997–98 3200 registrations spending \$4.3 billion on R&D Estimated cost for 2000–2001: \$600 million
<p>Cooperative Research Centres Competitive grants program that funds long term collaborative arrangements between researchers, governments and industry</p>	To maximise the economic and social benefits of publicly funded research and development for the wider Australian community	Researchers in universities, Commonwealth and State Government research agencies, and research users, either in industry or the public sector. Total customer base (centres) 2000–2001: 63	Commenced 1990; Currently 63 CRCs with program funding of \$140 million per year; industry commitments to date total \$1078 million. Cost for 2000–2001: \$134.4 million

<p><u>Major National Research Facilities (M NRF)</u> A one-off program to support the establishment costs of seven facilities in 1995–96</p>	To facilitate the establishment of major research facilities to maintain and enhance Australia’s international scientific, industrial and social competitiveness over the next decade	Total customer base (facilities) 2000–2001: 7	2000–2001 is the last year of funding. Cost for 2000–2001: \$4.6 million
<p><u>Technology Diffusion Program</u> Discretionary competitive grants program with three elements: Technology Alliances, Technology Transfer and On-line Business</p>	To promote international science and technology collaboration and attraction and diffusion of leading-edge technologies to Australian industry	Individuals, businesses, academic institutions, research organisations, State, Territory and Commonwealth Estimated total customer base 2000–2001: 100	\$108 million over four years from 1998–99 Cost for 2000–2001: \$15.2 million
VENTURE CAPITAL			
<p><u>Innovation Investment Fund (IIF)</u> Venture capital equity program that will fund up to nine private sector venture capital funds to be established in two stages</p>	To provide venture capital (equity) to assist small companies in the early stages of development to commercialise stages of development to commercialise the outcomes of Australia’s strong research and development capability	New technology companies seeking commercialisation funding from licensed private sector providers Estimated total customer base 2000–2001: 40	Commenced 1998; \$230 million in gvmnt funding matched by private sector investors on an up to 2:1 basis over a 10 years; total funding more than \$345 million Cost for 2000–2001: \$31.5 million
<p><u>Renewable Energy Equity Fund (REEF)</u> Specialist venture capital equity program that will fund one private sector venture capital fund</p>	To create a venture capital (equity) to assist companies to commercialise R&D in renewable energy technologies	Companies seeking to commercialise renewable energy technology from licensed private sector providers Total customer base 2000–2001: 5	Announced Nov 1997; One-off sum of \$19.5 million to be matched on a 2:1 basis with private-sector capital; total capital sum expected to be \$30 million . Cost for 2000–2001: \$3.5 million
<p><u>Commercialising Emerging Technologies (COMET)</u> Competitive, merit based grants program run by private sector Consultant Business Advisers which supports businesses and individuals to increase the commercialisation of innovative products, processes and services</p>	To increase the commercialisation of innovative products, processes and services, by providing individuals, early-stage growth firms, and spin-off companies with a tailored package of support to improve their potential for successful commercialisation	Early stage growth companies, individuals and spin off companies Estimated total customer base 2000–2001: 300 or more	Commenced 1999; provides funding of \$30 million over three years Cost for 2000–2001: \$8.3 million

<p>Pooled Development Funds Venture capital equity program designed to support small to medium sized enterprises (SMEs)</p>	<p>To increase the supply of equity capital for growing Australian small and medium-sized enterprises</p>	<p>Australian small to medium sized businesses</p> <p>Estimated total customer base 2000–2001: 120</p>	<p>Commenced July 1992; by June 1999 over 70 PDFs registered and about \$350 million capital raised of which over \$200 million had been invested in 200 SMEs.</p> <p>Cost for 2000–2001: N/A</p>
<p>GENERAL INDUSTRY INCENTIVES Policy By-law Scheme Provides import duty concessions on capital equipment used in major mining, resource processing, manufacturing and agriculture-based industries</p>	<p>To assist proponents of major resource processing and agriculture-based industries whilst providing opportunities for local manufacturing industries to supply capital equipment</p>	<p>Australian businesses in the major resource processing, agriculture and manufacturing industries</p> <p>Estimated total customer base 2000–2001: 81</p>	<p>Commenced 1998; 1998–99 35 projects worth about \$20 million granted</p> <p>Estimated cost for 2000–2001: \$20 million</p>
<p>Tradex Provides financial relief to exporting companies via an up-front exemption from customs duty and GST on imported goods intended for re-export or to be used as inputs to exports</p>	<p>To strengthen Australia's international competitiveness and put in place a more competitive customs regime encouraging exports, economic growth and employment</p>	<p>Australian businesses exporting</p> <p>Estimated total customer base 2000–2001: 2000 exporting customers</p>	<p>Commenced 23 June 2000</p> <p>Estimated cost for 2000–2001: \$100 million</p>
<p>INDUSTRY-SPECIFIC INCENTIVES</p>			
<p>Shipbuilding Bounty Provides financial assistance to registered shipbuilders for eligible costs incurred in the construction or modification of a bountiable vessel</p>	<p>To assist the shipbuilding industry of Australia</p>	<p>Registered shipbuilders</p> <p>Total customer base 2000–2001: 14</p>	<p>Commenced 1947</p> <p>Cost for 2000–2001: \$11.9 million</p>
<p>Shipbuilding Innovation Scheme Provides financial assistance for registered shipbuilders who undertake eligible R&D activities related to the construction or modification of a bountiable vessel</p>	<p>To encourage a strengthened focus on product R&D and design innovation in the shipbuilding industry</p>	<p>Registered shipbuilders</p> <p>Total customer base 2000–2001: 14</p>	<p>Commenced 1999</p> <p>Cost for 2000–2001: \$9.5 million</p>

<p><u>Printing Industry Competitiveness Scheme (PICS)</u> Provides cash rebates to the Australian book printing industry by allowing printers to claim 4 per cent of the paper input costs of books which satisfy eligibility criteria</p>	<p>To compensate book printers for tariff inflated input costs</p>	<p>Printers of eligible books Total customer base 2000–2001: 56</p>	<p>Commenced Jan 1999 and will operate until 30 June 2003; expected to compensate industry with around \$13 million over the period Cost for 2000–2001: \$3.4 million</p>
<p><u>Book Production—Enhanced Printing Industry Competitiveness Scheme (EPICS) Grants</u> Competitive grants program designed to assist firms involved in book production</p>	<p>To assist firms involved in book production by encouraging the use of innovative technologies, improved business practices, training and skills development</p>	<p>Eligible firms involved in book production Estimated total customer base 2000–2001: 100</p>	<p>Commenced July 2000; \$48 million has been committed over four years Cost for 2000–2001: \$8 million</p>
<p><u>Automotive Competitiveness and Investment Scheme (ACIS)</u> Provides import duty credits to registered automotive industry participants on a quarterly basis</p>	<p>To encourage new investment and innovation in the automotive industry</p>	<p>Motor vehicle producers, automotive component producers, automotive machine tool and tooling producers, and automotive service providers Estimated total customer base 2000–2001: 250</p>	<p>Commences 1 January 2001 and concludes on 31 December 2005 Estimated cost for 2000–2001: \$400 million</p>
<p><u>Passenger Motor Vehicle Manufacturing Plan</u> Provides duty concessions and export credits</p>	<p>To encourage the manufacture and assembly of passenger motor vehicles and passenger motor vehicle components in Australia and to expand production volumes beyond Australia to compete in a global market</p>	<p>Motor vehicle producers and specialist component producers Estimated total customer base 2000–2001: 350</p>	<p>Arrangements end 31 December 2000 Estimated cost for 2000–2001: \$270 million</p>

<p><u>Textiles, Clothing and Footwear (TCF) Strategic Investment Program (SIP) Scheme</u> Provides entitlement based grants to Australian TCF industries</p>	<p>To promote investment, innovation and value adding in the Australian TCF industries</p>	<p>TCF Industries Estimated total customer base 2000–2001: 470</p>	<p>The scheme will run for five years from 2000–01 to 2004–05; funding \$680 million over the five years Cost for 2000–2001: N/A</p>
<p><u>TCF Import Credit Scheme (TCF ICS)</u> Provides import credits to exporters of eligible TCF products</p>	<p>To assist Australian TCF industries through encouraging the further development of activities in which Australia is more internationally competitive; to facilitate the rationalisation and restructure of the Australian TCF industry</p>	<p>Australian TCF firms exporting Estimated total customer base 2000–2001: N/A</p>	<p>Commenced July 1991 and finished 20 June 2000; credits earned may be used until Dec 2001. Cost for 2000–2001: N/A</p>
<p><u>TCF Expanded Overseas Assembly Provisions (EOAP) Scheme</u> Provides duty concessions to firms who assemble garments and footwear overseas from predominantly Australian fabric and/or leather and then import them back into Australia for local consumption</p>	<p>To provide a viable strategy for Australian TCF industry to counter international competitive pressures through a combination of domestic sourcing and cost-competitive off shore assembly of finished apparel and footwear</p>	<p>Registered Australian TCF and manufacturing firms Total customer base 2000–2001: 26</p>	<p>New expanded EOAP announced in June 1999; expected that the scheme will provide \$40 million to 2005 Cost for 2000–2001: \$8 million</p>
<p><u>Corporatewear Register</u> Allows employers to register non-compulsory occupational clothing allowing employees to claim the cost of such clothing as a tax deduction</p>	<p>To provide a central reference for the registration of designs of occupational clothing</p>	<p>Australian businesses Estimated total customer base 2000–2001: 10,500</p>	<p>Cost for 2000–2001: N/A</p>

<p><u>The Petroleum Products Freight Subsidy Scheme (PPFSS)</u> Provides subsidy payment to registered oil companies and distributors</p>	<p>To provide relief to rural and remote areas for the costs of freighting petroleum products to remote parts of Australia</p>	<p>Registered oil companies and distributors Total customer base 2000–2001: 25</p>	<p>It is expected that the scheme will be worth around \$3 million in the 2000–01 financial year. Cost for 2000–2001: \$3.5 million</p>
<p><u>INFORMATION SERVICES Business Information Service (BIS)</u> Web based service that provides information on a range of business support services</p>	<p>To reduce the cost to business of accessing government information</p>	<p>All businesses and individuals wishing to start a business Estimated total customer base 2000–2001: 900 000</p>	<p>Commenced 1998; total funding of about \$22 million Cost for 2000–2001: \$4.1 million</p>
<p><u>AusIndustry Business Hotline</u> Telephone service that provides access to business information</p>	<p>To provide quick and easy access to information that governments prepare for business</p>	<p>Customers include all businesses and individuals wishing to start a business Estimated total customer base 2000–2001: 50 000</p>	<p>Commenced 1994; total funding of about \$5 million Cost for 2000–2001: \$1.5 million</p>

Appendix 2

Criteria used to assess ISR–AusIndustry Service Level Agreements (SLAs)

A comprehensive agreement structure, which

- indicates order of precedence over parts of the agreements to cater for unforeseen conflicts; and
- demonstrates internal consistency

Roles and responsibilities clarified

Timing for the arrangements including:

- identifying the term of current arrangement
- negotiating a replacement agreement

Consultative arrangements including :

- ongoing consultative arrangements
- mechanisms to vary the arrangements
- mechanisms for dispute resolution

Funding arrangements including

- levels of funding
- source(s) of funding
- levels of service delivery required in relation to funding
- financial incentives and sanctions linked to performance

Processes for managing risks

Mechanisms to evaluate and review the arrangements

- scope, objects, and resources for the reviews
- timing to provide potential for reviews to have input to evaluation and renegotiation process

Performance information consistent with good practice

- linked to strategies and objectives
- balanced across indicator type
- underpinned by data collection standards assessed against performance standards and targets
- regularly reported against, and monitored so to provide feedback into operations

See Auditor-General Audit Report No.1 1999–2000 *Implementing Purchaser/Provider Arrangements between the Department of Health and Aged Care and Centrelink*, p. 66, Table 4.1.

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