

ASCPA Annual Public Sector
Accounting Convention, Canberra

**Better Resource Management –
The Role of the Australian
National Audit Office**

24 November 1995

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INTRODUCTORY COMMENTS

As the title of my address suggests, my main focus today is how the Australian National Audit Office (ANAO) can, and does already, contribute to the better utilisation and management of public sector resources - resources which are entrusted to public officials by the community through the Parliament. This places a special obligation on all of us to use them wisely, efficiently, effectively and perhaps most importantly, in an ethical and fair manner in accordance with individual program objectives. It is a difficult balance to achieve but that is the particular challenge of public administration. When we talk about resources we need to recognise that the term comprehends all types of resources - our people (our most valued resource), cash, buildings, facilities and information (possibly our most under-utilised and vulnerable resource).

Put simply, the role of the ANAO is to provide reasonable assurance to the Parliament and other stakeholders that public resources are being used economically, efficiently and administratively effectively. An increasingly important part of that role is to identify, and act as a catalyst in dissemination of, better or best practice resource management. It is well placed to do so from its unique across-the-service perspective and close relations and involvement with all Commonwealth entities.

Ethical principles Auditing Standard, AUS 202.04 Auditing Standards & Auditing Guidance Statements. Prepared

by the Auditing Standards Board and issued by the Australian Accounting Research Foundation on

behalf of the Australian Society of Certified Practising Accountants (ASCPA) and Institute of

Chartered Accountants in Australia (ICA). Shannon Press. Melbourne 1995 (page 58) governing the auditors particular professional responsibilities include:

- (a) independence;
- (b) integrity;
- (c) professional competence and due care;
- (d) confidentiality;
- (e) professional behaviour; and
- (f) technical standards.

These are part of the new series of Australian Auditing Standards (AUSs) and Auditing Guidance Statements (AGSs) applicable to the first reporting period commencing on or after 1 July 1996 but which the ANAO has already adopted. Our own values, which we included in our recently released Corporate Plan 1995-98, are closely related to these principles.

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If the ANAO is to be effective in identifying and promoting better resource management, it has to have a good knowledge of the business of government as well as that of the various Commonwealth entities it audits. This requirement is also included in various parts of the auditing standards, for example in developing audit plans (AUS302 refers). Matters to be considered by the auditor in that context include:

- (a)
- (b) general economic factors and industry conditions affecting the entity's business;
- (c) important characteristics of the entity, its business, its financial performance and its reporting requirements, including changes since the date of the prior audit; and
- (d) the general level of competence of management. *IBID.*, (page 157)

Another increasingly vital area of business referred to in the standards is the computer information systems (CIS) environment. The auditor should have, or obtain, a knowledge of the CIS environment:

sufficient to assess its potential impact on the identification and understanding of the events, transactions and practices that, in the auditor's judgement, may have a significant effect on the financial report or audit report. IBID., AUS 214 (page 145)

I have to admit that I have had concerns in the past as to whether the ANAO had sufficient appreciation of the business of government and, in particular, of the development of the various public service reforms over the last twelve years. It often seemed to me that the ANAO had taken the role of a disinterested bystander, except when asked for a view. There were even some indications of a perception that the reforms did not equally apply to the Office itself. More about that later.

There is no doubt that you would have had to be quick on your feet in recent years to keep abreast of the various changes in the business of government. In my view, what we have witnessed, particularly over the last decade in Australia, is government in transition. In this respect we should differentiate between those actions and decisions concerning what government does and those reflecting how it does its business. This is not a phenomenon confined to Australia as the situation in our near neighbour, New Zealand, well demonstrates. In the United States of America, the phrase reinventing government entered the lexicon, or perhaps you prefer jargon. It is important for all of us, not least of all the ANAO, to understand just what is happening in governance and take account of developments in addressing issues such as better resource management. The latter context is very relevant in this respect, as much of the change was initially driven by budgetary (resource) concerns and the perceived need to wind back the public sector and to encourage greater involvement by the private sector, particularly in international markets. Latterly, the pressure mounted for a better performing public sector, including by the adoption of greater commercialisation and of market-type management and service delivery mechanisms. In short, the emphasis of the various public service reforms has been very much on

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performance and achievement of cost effective results from the resources entrusted to us.

The other word I would use to describe changes impacting on the business of government is convergence. We are witnessing greater convergence at national and international levels of both government and private sector operations. It is true to say that the internationalisation of private sector business, particularly at the corporate level, is well ahead of that of government, although there are numerous international government forums and organisations in existence. Sovereignty is still very much jealously guarded as we have seen in a number of disparate areas of government activity in recent times. This is also evident within countries, whether they be organised on a federal (state) basis or with only two levels of government (central and local). However, convergence is occurring in both those environments with amalgamations and greater integration in countries such as New Zealand, the United Kingdom and the United States. In Australia, the Council of Australian Governments (COAG) provides an indication of what is possible to achieve with greater integration, including a minimum of program overlap and duplication. Such convergence has wide-ranging ramifications for both the way in which government business is conducted and its resources are used and ultimately for performance.

The convergences occurring between the public and private sectors are having significant implications for better resource management not only through the greater adoption of market-type mechanisms by the former but also in greater involvement of the latter in providing goods and services to the public sector. In more recent times, we are witnessing the direct provision of government services by private sector providers even in traditionally core government areas. Such convergence also applies to management approaches and resource management techniques such as benchmarking and service quality reviews and accreditation. It is clearly extending the commercialisation continuum within the public sector, which I referred to earlier this year Accounting in a More Commercial Public Sector Environment. Address to the International

Convention of Accountants in Government. The Australian Society of CPAs. Canberra, 16 March

1995 (pages 9-14), from the traditional core government activities, such as Defence and Justice, through to public corporations operating in full competition with the private sector to the point of privatisation. In my view there is at least one important factor impacting on movement along that continuum and determining what remains as core government. There is a fundamental difference in focus which reflects on how performance is determined and that is the private sectors prime concern with individual wealth creation and the public sectors overall concern for the welfare of the community at large.

My remarks today should be seen in the context of these introductory comments. However, they will focus primarily on what I consider to be some fundamental aspects of resource management to which the ANAO can contribute, as well as on the way the ANAO is itself managing its resources in the following broad areas:

- adding value to the business of public sector administration;

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- our increasing reliance on information management in both a strategic and operational sense;
- transparency in the management of resources and risks;
- the growing importance of contestability in the provision of government services; and
- the need for credible and useful performance information in the management of our resources.

I use the term business to indicate the activities we engage in and as part of a generic grouping, not to provide hostage to fortune for our largely academic critics who argue about an apparent over emphasis on economic rationalism and inappropriate application of private sector practices and techniques to the public sector. I do happen to think the public sector is different as I will explain later.

I. ADDING VALUE TO THE BUSINESS OF PUBLIC SECTOR

ADMINISTRATION

At the ANAO we will be focussing our efforts on being valued by the Parliament, the community and other public sector entities as a major contributor to achieving excellence in public sector administration and accountability. After all, that is what should be expected of us. We can add value from our independent focus and professionalism with insights and information gained from our across agency perspectives and our audit activities across some 400 entities.

The ANAOs unique position in dealing directly with management and staff at all levels in the public sector on accountability and performance, systems and information - as well as the particular skills and experience of its people - mean that the ANAO is well-placed to add value to resource management in the public sector. For instance, we have been recently working closely with MAB/MIAC on issues such as risk management based largely on our financial statement audit work and taken a high profile on accrual reporting/accounting and whole of government financial reporting; areas I will explore in more detail later.

I have continuously emphasised the need for the ANAO to focus its attention on adding value to public sector management, or administration if you prefer. We undertake an important attestation or assurance role for the Parliament, the Executive and agency management. However, we also have an obligation to contribute to the development of the overall public sector management framework from our particular vantage point at the centre of government as I have noted. Achieving a better balance between internal control and external review is clearly one area in which we can add value to resource management. But that will require a co-operative effort, particularly with agency managers. Better results will flow from an effective management framework. In my view, both our financial and performance audits can contribute significantly to such a framework, if given a reasonable opportunity. That will require trust and confidence. I, for one, realise that has to be earned but it is not a one-way street.

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One of my first tasks in the ANAO was to focus the Office more on the evolving public sector environment, of which we are an integral part, and assess not only the impact and implications for the Office of the significant changes that have been occurring but also to think about how we could contribute to their future development. Understanding the environment in which the business operates is a major challenge for any organisation. As part of the overall framework of public administration, we need to pay close attention to the legislative environment that is now moving closer to reflecting the developments of public sector reforms since 1983. That environment includes the Corporations and Taxation Laws as they apply to the increasing number of Government Business Enterprises (GBEs). Unfortunately, the replacement legislation for the Audit Act seems to have gone into limbo, despite efforts to see if we could have it addressed this Parliamentary session.

Understanding the changing public sector environment

The challenge of managing our resources better needs to be considered in the context of all the various reforms in public sector administration. These reforms have focussed our attention on the need for change in the work culture of the public service, the necessity to improve the management of our people and other resources, in particular, and on the requirement to be accountable for our performance and program results. The reforms include:

- a focus more on program outcomes;
- the matching of authority with responsibility through a process of devolution of authority;
- risk management, including the requirement for managers to be directly accountable for their performance;
- a results oriented framework for financial resource management and reporting, including evaluation and review; and
- a more pro-active framework for human resource management (HRM), involving greater staff management flexibility, personal development reviews and training, equal employment opportunity and other human resource management initiatives, as well as performance appraisal and reward and recognition of good performance, including through performance pay.

The ANAO is well placed to make a significant contribution to the development and implementation of many of these reforms, as indeed it has done in some cases. We also need to complement particular initiatives such as program evaluation. Belatedly, as with the rest of the public sector, we have recognised that our people are, in fact, our most valuable resource and that the time and effort devoted to the management of our people should be commensurate with this view. In essence, the various reforms will only be successful if people understand the purpose of those reforms and have the necessary expertise and commitment to implement them. The issue is not simply one of creating awareness; important as that undoubtedly is. People need to be convinced and have the capacity and motivation to achieve the required outcomes. Investment has to be made in their personal development and environment, broadly defined. Regrettably in my view, performance pay has not achieved its potential as a

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tangible recognition for performance. We still have the opportunity to show it can but all parties need to be involved in determining a credible arrangement for assessing performance that is seen to be fair and equitable.

Effective HRM requires a consistent and co-ordinated approach to the key elements of people management, integrated within the corporate management process. This should be derived from the key APS values and HRM principles and must be supported by accurate and timely management information systems. The HRM framework developed and promulgated by the Public Service Commission establishes a sound basis on which agencies can build. A Framework for Human Resource Management in the Australian Public Service (second edition)

Public Service Commission. AGPS, Canberra, March 1995 We need to recognise that there are now greater demands for flexibility and adaptability. The only certainty is change. We have to create an environment in which our people feel comfortable and competent to both create and adjust to change. But they must have confidence in a supportive framework which includes adherence to basic principles of public administration.

While not a major focus of ANAO audit activity, we have nevertheless undertaken a number of audits in the HRM area and plan to continue to devote resources to such matters in future audit programs. In the last three years the ANAO has undertaken a range of audits with an HRM theme. A list of such audits is included in the Attachment.

In general terms the audits found significant differences in the management of HRM and related matters across agencies. More co-ordinated and shared arrangements would redress some of these differences. A common theme was the need for better management information systems to assist in decision making. I have no doubt that the ANAO has a catalytic role to play with the Public Service Commission (PSC) and the Departments of Finance and Industrial Relations in improving overall agency performance in these areas.

The recent Department of Social Security (DSS) audit of Regional Office Resourcing and Benefit Processing was the first of its type undertaken by the ANAO. In our view the outcomes from the audit have the potential to be applied in other agencies with the promise of better resource planning and utilisation and possible savings on running costs. The audit found that DSS was one of the few federal government departments to use resource modelling techniques. It also identified improvements and resulting benefits that could be gained from re-engineering the processes used to deliver social security benefits in Australia. It also noted that, while the methods used by DSS for determining and allocating resources to regional offices compared favourably with generally prevailing APS standards, they could be significantly improved by adopting, or adapting, elements of best practice in the private sector. Any initiatives taken by DSS in this respect could well have application elsewhere in the public sector. It will be important to leverage off DSSs experience.

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The ANAO is now fully aware that the reforms to date apply just as much to it as they do to any other government organisation in terms of, for example, managing our resources and being part of one public service, particularly in regard to career development. We appreciate that, in setting our priorities, we have to take into account the directions set by MAB/MIAC in the various publications such as Building a Better Public Service Building a Better Public Service, a joint MAB/MIAC publication, No. 12 1993 and Ongoing Reform in the Australian Public Service Ongoing Reform in the Australian Public Service, An Occasional Report to the Prime Minister by

MAB, No. 15, October 1994.

Building a Better Public Service

You will recall that the major themes identified in Building a Better Public Service are:

- Making performance count: by looking closely at client needs and service quality, evaluating achievements, rewarding good performance at all levels, learning from and building on past performance, and being accountable;
- Leadership: emphasising the key responsibilities of agency heads in managing for results, and clarifying the roles of central agencies and other mechanisms for sharing knowledge and experience; and
- Strengthening the culture of continuous improvement: through better people management and development, and by embedding attitudes in a culture that unequivocally seeks to find better ways to achieve desired results.

I note that these themes are very much people oriented, stressing both learning and sharing of knowledge and experience.

The ANAO must, and be seen to, own these elements of the strategic base for the ongoing reform program as must other Commonwealth entities, as well as reflecting these themes in the audits that it undertakes. By so doing, I am very confident that the Office can be an important catalyst in the ongoing public sector reform agenda. We will be seeking to have such an involvement, particularly in the MAB/MIAC context. We will be maintaining close contact with the Secretariat, including contributing to various studies, workshops, seminars and publications. As well, we need to work closely with agencies on developments such as One Stop Shops, for example the recently established AusIndustry and involvement of the private sector in delivering services as in the provision of case management for the unemployed. There are also changing arrangements for Commonwealth/State relations in regard to program responsibilities under the auspices of the Council of Australian Governments (COAG) as I indicated in my opening comments. These developments are likely to have important ramifications for the way public services are provided and accounted for in the

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future. In particular, they are raising audit implications bearing on accountability relationships with private sector providers.

The Public Sector is different

The public sector reforms of recent years have focussed debate on whether, and in what way, the public sector is different from the private sector. This is not the occasion to review that debate except to note there are important differences. As I mentioned at the beginning of this address, the resources used by the public sector are those which are entrusted to us by the community through their Parliamentary representatives for the benefit of all Australians. As such, there is a heavy emphasis on community values, concern for fairness and equity and some kind of minimum community expectations and standards. This in itself places the public sector apart from the private sector which utilises the resources of the owner/shareholder for their particular benefit even though many firms do recognise social obligations and the need to be a good corporate citizen. However, the latter's survival depends basically on their ability to earn profits. That is a far different and, may I say, simpler bottom line to focus on than what generally confronts public servants, including balancing some often apparently conflicting objectives.

Without in any way reflecting on the standards of the private sector, the position of public trust that the public sector is in requires, in my view, higher standards of ethical conduct and brings with it an imperative of public accountability. I agree with the Auditor-General of Canada when he said:

I propose as a starting point the principle that public service is a public trust. I believe this principle is central to any discussion of ethics in government.

Reflections on Ethics and Accountability from an address by L Denis Desautels, FCA, Auditor-General of Canada, Opinions Vol. 13, No 1 1995 (page 5)

I was also encouraged by Dr Michael Keating in his presentation on Public Sector Values as part of the 1995 Peter Wilenski Memorial lectures, when he observed:

the old legitimising principles underpinning the Public Service and its core values have not been rejected. Rather, in order to reinforce our understanding of democracy, efficiency and equity, we have attempted to breathe life into them. We have sought to enhance their relevance to today's public service and relate these principles to the tasks public servants are actually being asked to perform. Public Service Values, Dr M.J. Keating AO. 1995 Peter Wilenski Memorial Lectures, Canberra

17 July 1995 (page 6)

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The fact that there is, quite appropriately, a continuing focus and debate on public sector ethics and values also demonstrates that those we serve have quite legitimate expectations about the way the public service should go about its business. I, for one, hope the debate continues. If it ceases, it could signal a lessening of their relevance and importance. They are not something we can take for granted.

ANAOs approach to its Business

We have just completed a comprehensive review of our Corporate Plan. In common with the broad approach taken by other agencies we have established our vision, role, values, priorities, environment and key results areas with expected outcomes. Our vision is:

to be valued by the Parliament, the Community and Commonwealth Entities as a major contributor to achieving excellence in public sector administration and accountability.

In short, we see our business as being more than auditing per se. In that sense, it is very much an outcomes oriented vision which I have chosen to short-hand as adding value.

Implementing innovative audit approaches

In line with the push for a value adding ANAO, I have recently written to the heads of Departments and agencies advising of the ANAOs intention to conduct a program of audits of financial controls and administration. The focus of these audits will be on identifying best practice in common areas of administration, including in the area of risk management. I am very confident that with the goodwill and cooperation of agencies, the ANAO will be able to add considerable value to public sector administration and accountability through these audits. My colleague, Bill Nelson, spoke in detail about these audits in his address yesterday so I will not go over the same ground again. I would like, however, to emphasise the approach we will be adopting in reporting the results of these audits.

While the results of these audits will be reported in the normal way to the individual Ministers, departments and agencies, it is intended that the Reports to Parliament will be generic in nature in order to provide the Parliament with a better perspective of areas of best practice, as well as areas where improvement is warranted. Therefore, the intention is to mention by name only those organisations, for contact purposes, which have demonstrated approaches and practices that might be useful elsewhere. I have no doubt that many useful initiatives will be in the systems areas, mainly those based on information technology (IT).

The ANAO is re-equipping auditors with state of the art hardware and integrated audit technology software products. Over the next 2-3 years, the ANAO will be

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making significant enhancements to the way we plan and execute our financial statement audits by integrating information technology into all phases of the audit process. This change will position the ANAO as a leader in public sector auditing and best practice in financial statement audit methodologies.

The Financial Audit Business Unit (FABU) has commenced a Technology Implementation Project which involves a strategic relationship with the international accounting firm, Price Waterhouse. The ANAO and Price Waterhouse are working together in the development and delivery of state of the art technology software products that meet public sector auditing requirements and the ANAOs financial statement audit responsibilities. Our association with Price Waterhouse in no way impinges upon our professional relationship with our auditees or, indeed, on our independence. A similar approach has also been adopted elsewhere for both internal and external audit purposes. We have also done a lot of work to customise the product to the public sector environment and will continue to do so.

FABU has also implemented Lotus Notes groupware to support the operations of the Business Unit. Notes delivers up to date reference databases, supports Business Unit communications and promotes the efficient distribution/sharing of information. We have been particularly impressed with the manner in which the Australian Bureau of Statistics (ABS) has based its operations around the use of this technology with clearly significant efficiency gains.

Notes databases are currently being built which will contain all internal FABU policy and advice. These will reduce the amount of redundant information storage and ensure all staff have ready access to current information. FABUs target is to gradually reduce the quantity of information delivered on paper with the aim to have no paper distribution for internal documentation by early 1996. The technology will also have a marked impact on the preparation and storage of, and access to, what have always been known as working papers.

The benefits of this new strategic direction are twofold. The technology will enhance our capacity to deliver value-added audit services and enable us to further improve our work practices leading to an increase in the overall effectiveness of the audit process. From what I have observed already, there is real scope for both improving the quality of our audit work and providing better job satisfaction to our people. We should be able to take greater advantage of their professional skills by complementing them with expert systems and removing much of the routine, repetitive and time consuming processes.

In order to ensure proper assessment and acceptance of the technology into the ANAO an implementation program covering a realistic transition period is underway. This involves piloting the new technology in selected financial statement audits during 1995-96, with full implementation of the technology occurring during 1996-97.

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I am confident that this important initiative will build on, and progress, the ANAOs commitment to meet the needs of the Parliament for quality and timely audits as well as adding value to resource management within and across agencies.

The use of IT tools also continues to be a crucial element of our performance audit methodology. For many years now, our performance auditors have drawn on a suite of automated tools to assist them carrying out complex audits. These tools include survey software (borrowed from the US General Accounting Office), database packages for data analysis, and data interrogation systems. The Performance Audit Business Unit (PABU) has developed a study to examine the benefits of integrating groupware products into the audit process in order to better share information and assist the review and audit management process. The ANAO will also continue to take advantage of new automated analysis techniques as they become available in order to continuously improve the quality and efficiency of its performance audits.

Developing our people resources

The ANAOs Corporate Plan for 1995-1998 includes our people as a key result area. The relevant extract of the Corporate Plan is as follows:

Our Challenge: To provide an environment which enables our people to enhance their skills and achieve their full potential.

Approach:

- _ Provide leadership to our people and empower them in the workplace
- _ Foster a consultative and participative and accountable environment
- _ Encourage our people to adopt a culture of continuous improvement
- _ Institute a credible system of rewards and recognition
- _ Promote an environment of equity, fairness and ethical conduct
- _ Make available a range of opportunities to assist our people in their personal and professional development
- _ Maintain a safe working environment
- _ Encourage a suitable balance between the work and home environment

Outcome: Professional and motivated people who are committed to achieving our Vision.

Underpinning the Corporate Plan are Business Plans for each of our two Business Units and a People Development Strategic Plan which outlines our objectives, strategies, priorities and budget and resource targets in the important area of

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training and development. The strategic planning processes are fully integrated as shown diagrammatically in the Plan.

At an operational level, we have in place a wide range of policies and practices aimed at achieving the objectives of our Corporate Plan. These include:

- a comprehensive professional training program for audit and other staff (this program is underpinned by a detailed assessment of training and development needs);
- a policy requiring the preparation and review of individual development plans for all staff as part of the performance appraisal/feedback processes;
- rotation policies within each Business Unit;
- a policy of staff interchanges with Parliamentary Committees, other public service entities (including in other levels of government), professional bodies and the private sector;
- contractual arrangements with accounting firms engaged to assist us in the conduct of our financial statement audits which provide for the placement of ANAO staff in audit teams and the appropriate professional development of these staff; and
- a comprehensive training and development program for graduates and other new starters.

I am not suggesting for one moment that the ANAO has yet got it right in this area but I am confident that the frameworks and arrangements we have in place provide a very solid platform on which to ensure that we manage our people in an effective manner.

Of course, as with any other organisation, our future is our people. With this very strongly in mind we have put a great deal of effort into developing a People Development (PD) Strategy which will assist all levels of ANAO staff to meet the challenges which face us in the future. Our Board of Management oversees the priorities outlined in the strategy. The emphasis is on teamwork and good communication. Implementation is coordinated by the PD section which liaises with our two business unit PD committees. Our program of staff training activities is developed against Individual Development Plans. The latter are integrated into all our planning processes from the Corporate through to the business and operational levels. This has been an increasingly common approach used to good effect across agencies.

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II. THE STRATEGIC AND OPERATIONAL MANAGEMENT OF INFORMATION

No discussion of management of resources would be complete without reference to the importance of information to the way we do business and on the way we manage it, particularly by the use of Information Technology.

Effectively managing our information base

The way we manage the vast array of information and associated technology held by APS agencies is of fundamental importance to our overall performance. As such there is a growing recognition of the need to ensure its effective management; this includes its utilisation as well as its protection, integrity and confidentiality. We also need to ensure the issues involved for program performance and resource management are well understood at all levels of our organisations as well as by the Parliament and the community at large. I particularly relate to the observations made by the then Western Australian Information Policy Committee in 1992:

Government acts as the trustee of the peoples information, so the ethics associated with such a role are applicable. Government must achieve a balance between protecting and safeguarding information on the one hand and providing information to achieve efficiency within government and to benefit the community and the economy on the other. Managing the Information Resource. Western Australian Information Policy Committee,

Government of Western Australia, Perth, 1992 (pages 27 & 28)

Public sector managers at all levels need to realise and stress that information technology, in its broadest sense, is having a fundamental impact on the business of government. It is also essential that public sector auditors recognise this and respond accordingly. IT is, of course, a means to an end and can facilitate the use of information in all its various forms. The technology has to be managed both strategically and operationally. An organisations information is one of its major assets and the proper management of this resource can provide it with a strategic advantage in performing its functions. The public sector is undoubtedly the biggest information industry in the country.

Processing power, storage capacity, speed of information access and computer communications are all advancing rapidly and are now being interweaved with the substantial innovations in the communications industry. In the world of jargon, we are now referring to information technology and telecommunications (IT&T) even though they are rapidly becoming almost indistinguishable.

Changing the way Agencies do their Business

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The view in Australia, as no doubt in other countries, is that technology has and will continue to play a significant part in achieving improved service delivery and fundamentally changing the way in which, individually and increasingly collectively, agencies will do business or perform their functions if you prefer. An important challenge lies in developing an across the service environment that not only leads to improved client service but will also produces significant cost savings. It almost goes without saying that the drive to do more at less cost is as much an imperative in Australia as it is apparently in all public sectors around the world.

It is becoming more generally recognised that information is our second most important asset after our people. Unfortunately, the value of our people has also only been belatedly recognised in the various public service reforms over the last twelve years as I noted earlier. Overall performance very much depends importantly on their honesty, integrity and commitment as custodians of public resources. Managers would do well to reinforce how much these attributes are valued. Recognition is a good start.

Preservation of our important information base is the responsibility of each one of us. I have no doubt that the Parliament and the community will be continuing to seek assurances in various ways that we are maintaining its integrity and security, both in a physical and qualitative (including confidential) sense. As well, as public service managers, we have come to understand and value the extent to which information has become integral to our functions and our organisational performance. Attention has therefore increasingly been focussed on the need to create an accessible but secure environment for our information in whatever form it takes. There has to be an organisational commitment to information as a corporate asset while encouraging innovation and flexibility in its use.

By way of example of how an individual departments business can be substantially altered, the Australian Department of Social Security (DSS) is set to begin a trial of its own electronic banking card which eventually could independently process the Departments multi-billion dollar annual welfare payments. (I should mention in this context that Australians have shown themselves to be early adopters of information technology based banking services as they have been in many other areas of technology over the years.)

DSS has joined an electronic banking network that processes transactions for banks and other financial institutions and runs more that a third of Australias automatic teller machines. The electronic banking card would allow DSS clients to access funds through cash card ATMs without the need for separate bank accounts (welfare payments have increasingly been directly credited to beneficiaries bank accounts). If the trials are successful, client service would be significantly improved. DSS beneficiaries would not be subject to the various government and bank charges attached to the bank accounts. Of course, the changing nature of the payment systems and the associated risks have also to be addressed in the audit context. More on issues of internal control later.

Another example which might be of interest is the new Automated Job Selection (AJS) project of the Department of Employment, Education and Training (DEET).

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Touch screen technology is to be provided in all Commonwealth Employment Service (CES) Offices throughout Australia (over 2000 touchscreens) to enable jobseekers to search interactively for jobs. The screens will enable jobseekers to access all jobs in the national job database, not just in the local area. It is likely to be a catalyst for change in how government information services are delivered. This development may well change not only the nature of service delivery but also the organisation itself. Perhaps of even greater impact will be the new Education Network Australia linking schools, universities, other tertiary institutions and education and training providers across Australia as well as internationally.

In response to the increasing strategic importance of information technology the Australian Public Service is making significant efforts to ensure an environment exists in which the potential of information technology to enhance performance and bring about change can be realised. The Government has established three key approaches to advance information technology and maximise its contribution to overall reforms, including resource management, in the Australian Public Sector. These approaches are as follows:

- The appointment of a Chief Government Information Officer (CGIO).
 - This is a recent appointment and central to the promotion of the Governments IT objectives. The Chief Information Officers functions include:
 - chairing the Information Policy Services Board (see below);
 - development of an Australian Public Service blueprint which builds on overseas experience , for more efficient and effective development and use of information technology;
 - taking a leading role in identifying, acquiring and promoting adoption of standard solutions to address common requirements across agencies, including facilitation through seed funding of joint projects;
 - promoting the lead agency concept whereby agencies active in a particular area receive assistance and increased funding to develop broader based solutions which have wider applicability across government;
 - facilitating development of cross agency applications to improve delivery of government services to clients and/or produce significant operational economies; and
 - identifying areas in which whole of government information technology standards are necessary and developing those standards.
- The establishment of an Information Services Policy Board (ISPB)

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- This is a high level advisory body responsible to the Government for providing guidance on policies and strategic directions regarding information technology and related issues. Its forerunner, the Information Exchange Steering Committee (IESC) was established in 1985 to promote interconnectivity between agency computer systems and facilitate information exchange between Government agencies. The ISPB will assist the CGIO as follows:

In consultation with other relevant policy committees, provide policy advice to government on information and communication service issues in general, including the Governments role in the provision and use of these services in a way which meets economic and social objectives, by:

- a) facilitating and promoting the adoption of an across government approach to the use of information services by departments and agencies, consistent with the current framework of devolved responsibility and accountability;
- b) identifying opportunities for co-ordination of infrastructure and delivery of services, and promote best practise among departments and agencies including the use of outsourcing and partnerships with industry;
- c) developing a vision for IT and information services in Government focussing on the delivery of client services to the public; and
- d) providing advice on, and fostering sound practices in relation to:
 - policies for across government approach to the development and use of information services, including IT, telecommunications and information networks;
 - the potential for the merger of smaller data centres and their support structures and the savings that can be realised;
 - the development of and revision of guidelines for agency corporate, information technology, telecommunications and procurement plans and the integration of all such plans into the corporate plan. Develop mechanisms to make such information available to industry in electronic form and facilitate their ready updating by agencies;
 - the implementation of more common standards in IT to enable better communication and access of information across agencies;

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- promote common benchmarking across agencies as a mechanism to improve efficiency and accountability;
 - overcoming administrative impediments in procurements, staffing and contracts to outsourcing and partnering with industry;
 - fostering a more innovative approach to the development of systems, support of legacy systems, delivery of services, including the use of the lead agency concept;
 - establishing, in consultation with the Australian Bureau of Statistics, a data base of information on the use of IT and information on the Commonwealths use of IT; and
 - being responsible for disseminating global information on the Commonwealths use of IT.
- The establishment of Acquisition Councils.
 - These Councils provide impartial advice to the head of agencies as well as assurances to Government that agency acquisition proposals for information technology (costing \$A10 million or more) represent value for money and take into account relevant Government policy. These Councils ensure government policies for procurement and industry development are taken into account.

Collectively, the Chief Government Information Officer, the ISPB and the Acquisition Councils will assist the Australian Government in achieving a well-co-ordinated, well structured, efficient and effective computing environment that will meet, for example, the objective of single window or one stop shop concepts of service delivery. There have already been suggestions that there is a need to establish an open government pilot project providing access to distributed electronic services throughout the Australian Government.

The importance of better inter and intra agency coordination of IT to service delivery and the cost to Government of information technology cannot be overstated. I should also add the desirability of seamless integration of agency systems in order to be able to exchange documentation of all kinds in electronic form.

The Audit Challenges in the information environment

The challenges facing auditors are, to say the very least, significant. For the ANAO I would broadly categorise the challenges into three main areas:

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- developing methodologies and computerised tools to keep pace with the changes occurring in data management and communication in individual agencies;
- encouraging and assisting , where possible, the Australian Public Services efforts for across the service IT initiatives and innovation in individual agencies; and
- ensuring we maximise the benefits of information technology in our own audit practice to improve audit quality and increase productivity.

In meeting our auditing responsibilities, the financial and performance business units of the ANAO have incorporated into their strategic audit programs a range of audit tasks to ensure appropriate audit coverage of information systems is achieved. Our aim is to ensure that the audit of information systems is not necessarily a separate audit task but is seamlessly integrated into all audit work ie both performance and financial audit, directed at agency and program level. We do use Computer Assisted Audit Techniques (CAATS) extensively but also rely on quality internal audits which use suitable IT-based test tools.

We also see it as part of our responsibility to contribute more in areas such as the development of new systems. We are currently exploring ways in which this is best achieved. Given limited ANAO resources, we find it difficult to cope with the substantial activity taking place across the Federal public sector. However, I see it as important that, where possible we provide advice on the effectiveness of new systems, including the adequacy of their checks and balances. Encouraging internal audit work in this area has always been an important part of our strategy. I was impressed by the many papers presented at a working seminar of the International Organisation of Supreme Audit Institutions (INTOSAI) in March this year on Performance Auditing of the use of EDP which included observations such as the following:

It is necessary for auditors to examine systems development projects. An audit office has never been compromised for so doing but conversely there are examples where an office has been compromised for not having taken action. Unfortunately there is no universally accepted code of practice as to how and when auditors shall examine systems under development.
Performance Auditing of the use of EDP Future Challenges:
Proceedings from the INTOSAI

Working Seminar on the theme of Future Risks and Opportunities in the Field of Performance

Auditing of the use of IT/EDP. The Swedish National Audit Office, Stockholm, Sweden.

14-15 March 1995 (page 14)

The proceedings warned of the recurring dilemma about how the audit function should avoid capture in a project and be held responsible for decisions and

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outcomes. I agree that we are on safer grounds when indicating the sort of standards that are applied by others adopting best practice. In this respect, ISO 9000 is probably useful as a starting point for checklists. Perhaps I should leave the last word on this subject to John Adshead of the Office of the Auditor General of Canada as follows:

There is no magic solution to delivering successful systems. There are common-sense guidelines that can provide assurance that a major project can be delivered on time, within budget, and satisfies the users requirements. Systems Under Development
Dr John Adshead, Office of the Auditor General of Canada, 1995

In giving encouragement to information technology innovation, I expect my Office to develop an ability to identify best practice and assist by communicating it to other areas of the public service. I have also undertaken to help the Governments Chief information Officer where ever we can, particularly in any whole-of-government approach and systems development. We are represented on relevant committees from a user perspective.

As mentioned earlier, a key element of the ANAOs Information Technology strategy is to equip financial statement auditors with current state of the art hardware and integrated audit software technology. We hope to extend such integration to other auditing systems being put in place by some internal audit units such as in Customs and the Australian Taxation Office. The initiative with Price Waterhouse is highly pertinent in this respect. We also hope to make the groupware products facility (enabling sharing of auditing and accounting guidance across the Office) available for access by other agencies in the foreseeable future. Such a facility is also proving useful for the performance audit processes in order to better share information and assist the review and audit management activities.

The pace and impact of information technology development will be, I suspect, the greatest challenge we face as we move into the next millennium.

III. TRANSPARENCY IN OUR FINANCIAL MANAGEMENT PERFORMANCE

A key element of managing resources is the need to have appropriate arrangements in place to manage and monitor our financial performance and to demonstrate accountability for that performance. I will discuss a number of important developments which are aimed at improving our financial management performance and some of the issues which are emerging from those developments.

Whole of government reporting

One issue which is and will continue to receive increasing attention within all levels of government in Australia is Whole of Government Reporting. It does have

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implications for overall resource management and the ANAO is taking a high profile in its development at the federal level.

As you would be aware, the debate started in earnest with the accounting profession releasing an Exposure Draft (ED62) *Financial Reporting by Departments* in March this year. The exposure draft required preparation of Whole of Government financial statements by 1997-98 but the Public Sector Accounting Standards Board (PSASB) has subsequently decided to defer implementation of the Standard until 1998-99, Consolidated Financial Reporting by Governments. Media Release by the Public Sector Accounting Standards Board of the Australian Accounting Research Foundation. Canberra, 13 November 1995 although, I understand, earlier adoption will be encouraged when the Standard is issued in mid 1996.

What some of you may not be aware of is that both the Joint Committee of Public Accounts (JCPA) and the Heads of Treasuries of Commonwealth and State governments have also been considering this issue. The JCPA has already recommended *Accrual Accounting - A Cultural Change* Joint Committee of Public Accounts, Report 338.

Canberra, August 1995 (page xviii) the Government commit itself to the preparation of whole of government reports on an accrual basis and it is due to report shortly on its inquiry into a timetable for, and the contents of, whole of government reports. I have been informed that the JCPA is considering its report this week.

So what is Whole of Government Reporting? Put succinctly, and in the perspective of the Commonwealth, whole of government reporting would require a full consolidation of the financial statements of just over 400 entities which the Commonwealth controls. The consolidation would involve all the normal intricacies of consolidations such as identification and elimination of inter-group transactions and balances and the bringing into alignment of accounting policies. Fortunately, the latter are reasonably centralised under the direction of the Minister for Finance although there are apparent problem areas such as asset valuation.

The key issues associated with whole of government reporting relate to the *how* and *what* of whole of government reporting, and perhaps most importantly, to answer the question *why bother?*

To start with - how? - or more accurately, on what basis should the consolidation occur? ED56 suggests that the consolidation should occur on the basis of control. This would pick up tests such as:

- ministerial or other government power of direction;
- capacity to remove the majority of the directors; and
- majority of voting rights.

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It is probably no real surprise that the application of such tests is, in some instances, quite problematical. For example, does the Commonwealth Government control the Reserve Bank or the judiciary? While the issue of determining control is not always straightforward, the Exposure Draft makes the point (paragraph 36) that the existence of control for the purpose of reporting does not necessarily indicate there is also control over the manner in which professional functions are performed by an entity.

Whilst ED62 suggests that control is the appropriate basis to use for consolidation, a number of other options are also available. One leading academic has suggested that an economic dependency test might be more appropriate. (Would this require the Commonwealth to consolidate its GBEs or the GBEs to consolidate the Commonwealth!!!) In any event, it would seem to require consolidation of the State governments and any private sector business or charitable organisation which is largely dependent upon government business or funding.

A further suggestion is that the GBEs and financial institutions could be equity accounted NOTE: Under equity accounting, GBEs would be included as one line (investments) in the whole of

government financial statements. The value of the investment reported is increased by the

Commonwealths share of profits earned by the GBEs and reduced by the value of any dividends

received from the GBE.

In comparison, under a full consolidation, the financial statements of the GBE are added to those of the

parent, line by line (with adjustments then made for inter-group transactions).

The impact of this difference is best explained by an example. Under full consolidation, the borrowings (or any other) figure in the whole of government statements would show all borrowings of the Commonwealth, including those undertaken by GBEs. If GBEs were equity accounted, their borrowings would not be reported, as they are, in effect, netted off against the assets of the GBE in determining the investment figure. rather than consolidated.

A number of issues also emerge as to how we should implement whole of government reporting, for example:

- how do we collect the source financial information from our around 400 controlled entities?
- how do we identify material inter-group transactions and balances; and
- how do we ensure consistency of accounting policies?

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Finally, there is the question as to how we bring all of this together into one set of statements. The New South Wales Treasury prepares its whole of government statements using computer spreadsheets. They currently consolidate around 400 entities, broadly similar to the numbers the Commonwealth would cover although of somewhat more limited size and coverage. I understand they are in the process of developing an accounting system for budgeting as well as handling consolidation. Indeed, we will learn from that experience as well as that overseas, such as in New Zealand and Canada.

Perhaps the greatest debate in relation to whole of government reporting is the What question, that is, what does it all mean? To be frank, there have been doubts cast on its value by a number of senior public servants over recent years, particularly as to what additional intelligence it provides. But it should be observed that these are providers not users of general purpose financial reports. In essence the main perceived problem comes down to the possible interpretation by users of the information provided. Because they can not measure the taxing power of the Government as an asset, the financial statements could well indicate that the Government is technically insolvent. As an example, the New Zealand 1994 whole of government accounts recorded that current liabilities exceeded current assets by \$NZ7 billion. Great care will need to be taken in ensuring that the bottom line measure of net worth/net assets is sensibly interpreted, particularly by financial commentators.

Given such difficulties associated with the preparation of whole of government reports, and the interpretational risks inherent in the process, why do it?

Any decision by the Government to prepare whole of government financial reports will undoubtedly be influenced by practices adopted overseas, the decisions of the accounting profession, and recommendations from Parliament, for example through reports of the Joint Committee of Public Accounts. The benefits of whole of government reporting are largely associated with the fact that it provides one reference source which details total government resources and obligations. While much of this information is currently available in the reports of individual Commonwealth departments, authorities and companies, it is not provided in one reference source. Whole of government reporting would draw this information together to enable strategic assessments and planning at government level.

Whole of government reporting also allows governments to better measure their financial position from one period to the next. It is likely to be most useful in medium to long term analysis, for example in identifying longer term trends which may require government action sooner rather than later.

Turning to the role of the ANAO. The ANAO, and indeed all State Auditors-General, are in a sensitive situation in relation to government decisions on financial reporting and the accounting professions standards. Should governments elect not to prepare their financial statements in accordance with accounting standards, the Auditors-General would be required, under professional obligations, to qualify those financial statements. Such qualification could place at risk the credibility of government financial reporting. A similar situation to this

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arose with the Reserve Banks financial statements for 1994-95. The Bank elected not to report in accordance with a standard resulting in what was a technical qualification having no material impact on the financial outcome but could have given rise to adverse comment.

To avoid this scenario, the ANAO intends to work closely with the Department of Finance and the accounting profession over the next couple of years to resolve the kind of issues outlined above. On whole of government reporting we need to ensure that the source data and processes of consolidation are sufficiently reliable and auditable. This is obviously a priority over the next year or so if we are to meet the standards requirement.

As the first step in this process, we are currently working with Finance to develop a proforma set of statements based on 1994-95 financial information. As part of this process we will examine issues such as:

- the appropriate form and content of the statements;
- processes for the collection of information and preparation of the statements; and
- appropriate accounting policies and treatments.

I have indicated to the JCPA that the ANAO would welcome their views on a progressive basis as we go through the development phase. This has both an educative and, hopefully, supportive value. However, I stress that the Government still has to take a decision on such reporting and its timing.

Accountability for risk management

Switching from macro management to micro management matters, no issue raised in recent years has invoked more debate and controversy than the concept of risk management. The first point to make is that this is not a separate activity within management but an integral part of the management process. Despite realising that most managers have been taking decisions involving different kinds and levels of risk in the normal course of their management functions, the public sector has not been adept at identifying or ranking risks, let alone assessing their impact on managing their resources and producing program outputs and outcomes. In many ways, public service managers have relied on procedural rules at least to deal with more obvious risks such as fraud.

I was interested in a recent article by Robert Behn of Duke University addressing what he termed three of the big questions of public management. They were the fundamental dilemmas of micromanagement, motivation and measurement. His comments on micromanagement bear directly on the major issues relating to risk management as follows:

How can public managers break the micromanagement cycle - an excess of procedural rules, which prevents public agencies from

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producing results, which leads to more procedural rules, which leads to ...? The Big Questions of Public Management, Robert D. Behn. Duke University, Public

Administration Review. Vol. 55 No. 4, July/August 1995 (page 315)

Put another way, there is often a woods and trees problem that inhibits managers in dealing directly with risks to their program outputs and outcomes. The biggest risk could well be doing nothing. The most obvious cost effective strategy is one based on prevention.

As I indicated at the outset, I am aware of various perceptions about the ANAOs attitude concerning public sector reforms of the last decade or so, for example in relation to the use of the Australian Government Credit Card. Let me therefore repeat what I said at the recent launch of the draft Guidelines for Managing Risk in the Australian Public Sector Managing Risk- Guidelines for Managing Risk in the Australian Public Service. An Exposure

Draft. Joint publication of the Management Advisory Board and its Management Improvement

Advisory Committee. No. 17. AGPS, Canberra, July 1995 prepared under the auspices of MAB/MIAC as follows:

While the ANAO may have been critical of some aspects of the implementation of various reforms by agencies, it is nevertheless a strong supporter of the public sector reforms which have as their focus improvements in performance and accountability of the public sector. I went on to say that the work of MAB/MIAC is, in my view, very important to the successful implementation of these reforms

Risk Management - An ANAO Perspective, Address by Pat Barrett at the launch of MAB/MIAC Report No. 17. Canberra, 7 August 1995

I went on to observe that management of risk is an important, and one could say pervasive, element underlying many of the reforms which have taken place. I stressed that the ANAO is a strong supporter of the concept of risk management and indicated that the reasons for this are in fact quite straight forward.

First, managing risk is an essential element of good management practice, particularly in todays climate of increasing financial constraint, greater competitiveness and contestability for both advice and services. The overriding aim of all the ANAO does is to improve public administration and the accountability framework through which its own performance will largely be judged. Managing risk efficiently and effectively reflects one concrete way in which this can be achieved. As the Exposure Draft indicates, it is necessary to manage risk all the time. Op.cit., Managing Risk Draft Guidelines (page 6) And I would add at all levels of your organisation.

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Second, the concept of risk management is fundamental to our own auditing activities in the conduct of both performance and financial statement audits. In undertaking our financial statement audits, professional accounting and auditing standards require the ANAO to first identify, and then assess, risks which exist in the organisation subject to audit. It is only in this way that our resources are applied to those areas of greatest risk, in this case the risk of material misstatement of the financial statements. Risk management was the main theme for financial statement audits for 1994-95. I have commented on this issue as part of my annual report to Parliament on the outcome of our financial statement audits which should be tabled next week. On the performance audit side, the ANAO has in place planning practices which help identify a range of risks in public sector entities. In this way, our resources can again be focussed on areas of greatest risk to identified performance in achieving the required results.

At the same time, the ANAO has a range of basic safeguards in place which help ensure that we are not exposed to unnecessary risks. These include, for example, the risk of issuing an incorrect audit opinion, or a performance report which lacks sufficient supporting evidence. The following comment is of interest in this respect:

Unquestionably, what frightens auditors as they move from certification into value for money assessments, and within the latter from economy through efficiency to effectiveness, is the difficulty in satisfying normal professional standards of evidence and the increasing risk associated with the greater use of judgement as opposed to supportable facts. Auditing the Three Es: The challenge of Effectiveness John Glynn, Andrew Gray &

Bill Jenkins, Public Policy and Administration Volume 7 No. 3, Winter 1992, p.67

An area of increasing risk is our responsibilities under the Corporations Law as well as under other relevant legislation such as Trade Practices, Taxation and Superannuation. The corporatisation of greater numbers of public sector entities, coupled with the Governments decision to privatise or partly privatise a number of these entities, means that we are all subject to the full umbrella of the Corporations Law responsibilities and potential liabilities. As the external auditor of these entities, the ANAO is very well attuned to the increased level of risk in this arena, for example in due diligence processes related to asset sales. An interesting situation has emerged from the landmark AWA audit negligence case in Australia where it has been reported that:

...auditors who neglect to follow their firms audit manual could be found in breach of contract and liable for hefty litigation action, with penalties reaching millions of dollars. Auditors given a stern warning on negligence New Accountant, 17 August 1995 (page 2)

The point is that if our audit manual requires us to follow certain steps - and we do not take those steps - we may be found negligent and liable for damages. To me

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it also emphasises the importance of keeping that manual up to date in terms of our current procedures and practices. That certainly has reinforced action we had already put in train to update the ANAO manual.

The need to be cognisant of, and observe due processes which ensure procedural fairness (or natural justice as some of us have been more used to referring to them), is another area of risk the ANAO deals with and has to manage on a day to day basis.

ANAO Experiences with Risk Management

Financial Statement Audits

For each audit cycle, the ANAO selects a focus for its audits. That focus is a normal part of the audit work undertaken to form an opinion on financial statements. However, particularly for larger audits, greater emphasis is placed on the work supporting, and the reporting of, the focus. Because of the need to integrate this emphasis into the audit work in general, the focus is determined before any significant planning starts for the cycle of audits. Apart from reporting results where significant against individual entities, the results are drawn together to attempt to outline an overall position for the Commonwealth public sector.

Because of the significance of risk management in public sector reform, a prime focus was given to this in the audit of selected entities. Risk management is also receiving considerable attention within the Public Sector as indicated by the recently issued MAB/MIAC Exposure Draft for Managing Risk in the Australian Public Service which has the strong support and endorsement of the ANAO. Risk management in selected entities was assessed and measured against specific audit criteria for 1994-95.

The audit work on risk management looked at how entities identified risks attaching to each of their programs, and how they assessed the effect and magnitude of those risks. It then looked at how the management of each entity addressed those risks within its operating framework. That framework should include any responsibilities or restrictions placed on the entity or its programs by legislation, and the relative costs of implementing measures to counter risks. The later steps in an entity's risk management include mechanisms to monitor its earlier assessments to monitor the effectiveness of the activities or controls put in place to counter the significant risks identified. The final step would be to use the output of that monitoring process to improve the effectiveness of the risk management process, while taking account of the costs of possible improvements. In some instances, the outcome of such monitoring is that parts of the control regime can be relaxed on the basis that risks and their effects are not as great as had previously been assessed.

Risk management was reviewed in selected entities with a reporting outcome in general terms of 50% having sound risk management practices in place, 48% are

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in the process of developing risk management practices, 2% not having taken appropriate steps to implement risk management practices.

Fraud control plans were preceded by a formal risk assessment. While this provided a useful base for the adoption of risk management in the wider context, the ANAO has encouraged the entities to broaden their assessments and strategies consistent with Public Sector Best Practice guidelines.

Performance Audits

On the Performance audit side, risk management also features prominently both in terms of risk to the Commonwealth and public, that is, an external focus and risk to the ANAO being an internal focus.

Taking the external focus first, ANAO has conducted several performance audits of how other Commonwealth agencies manage risks facing the Commonwealth or the general public.

For example, in an audit of the management of the construction of the new Collins class submarines for the Royal Australian Navy by the Department of Defence, we analysed the risks to the Commonwealth and developed a set of criteria based on minimising these risks. These risks included technical risks, financial risks, the risk of paying too much for the submarines and the risk of delayed delivery. The ANAO found that although the technical risks appeared to have been well managed, management of major commercial risks had been less than satisfactory. In another audit where ANAO looked at Australia's plans for responding to a major oil spill we found that, in some cases, equipment stockpiles did not correlate with the assessment of risk by the agency responsible.

Several audits are currently in progress with a strong risk management emphasis.

In one we have looked at how various regulators of consumer products apply structured risk management techniques to ensure the safety risks to consumers are minimised. Using the risk management model described in the MAB/MIAC exposure draft, we looked at how regulators identified and prioritised the risks to consumers, how they dealt with such risks, for example, by setting regulatory standards and how they enforced such standards, for example, by audits of manufacturers production facilities or taking legal action on behalf of consumers. This report is expected to be tabled next week.

In another, ANAO is examining the management by Defence of the \$1b Jindalee over-the-horizon radar system. The audit is analysing the way Defence is managing the projects cost, schedule and performance risks. As well as conventional project management and contract administration techniques Defence is managing the project by means of a systematic risk management model specified by Defence for use by the prime contractor (Telstra). The report is due to be completed in June next year.

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As far as the internal focus is concerned ANAO has adopted risk management techniques in the selection of topics for performance audit. Here the ANAO applies an analytical framework to identify the risks that a program or function will be poorly managed. This way ANAO can apply its available resources to auditing those programs which will provide the greatest returns in terms of improved accountability, economy, efficiency and administrative effectiveness

Corporate governance

The Commonwealth Government has undertaken extensive reform of the public sector. The pressure on the Commonwealth Government to provide more services with less has led, in part, to the introduction of private sector approaches to the structuring of government businesses including, for example, the appointment of boards of directors. This has focussed attention on corporate governance but, I hasten to add, not just for commercially oriented government organisations.

There has been considerable debate in the media in recent months about corporate governance issues. Essentially, corporate governance is the system by which businesses are controlled and managed. At the heart of corporate governance issues for the Commonwealth public sector is their linkage with the accountability processes involving the management and boards of government business enterprises, portfolio departments and the Parliament.

Corporate governance for the public sector raises a myriad of issues associated with accountability of boards of directors, as they relate to reporting arrangements on corporate performance, appointment of chief executive officers, board structures, related party transactions, and government indemnification arrangements for the representatives of their Executive Officers in a departmental environment among others. The ANAO will be canvassing with Commonwealth agencies good practices for public sector corporate governance in the coming months.

The Importance of a Sound Internal Control Environment

Both internal control and external review are necessary for strategic management and accountability. No amount of external review can by itself ensure an entity achieves its objectives, although it may prompt stakeholders to initiate changes to enable objectives to be met. Equally, sound internal control not reported on to external stakeholders (who are not in a position to command information on operations) leaves the stakeholders without assurance that the entity is not unduly exposed at least to less than adequate performance if not to financial loss.

That said, there is much that an external reviewer, such as the Auditor-General, can find in internal control to facilitate the review task, while at the same time be in a position to contribute meaningful to improvements in that internal control.

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Internal Audit

A universally-recognised vital element to effective internal control is the internal audit function. Internal audit is the right arm of management; providing confidence and comfort that internal controls are functioning as expected or drawing early attention to those that require remedial action. In recent years a number of internal audit units have extended into program review and evaluation as well as to performance audits. This adds to the requirement for close co-operation between internal and external audit and the need to reduce overlap and duplication.

With the recent public sector reforms, management should be utilising internal audit in meeting the demands of Government and Parliament for greater accountability and results. The importance of internal audit in the accountability process has been promoted by the Department of Finance in various publications and the release of a Finance Circular on internal audit. Department of Finance Circular 1993/5 The ANAO has always recognised that an effective internal audit can be an important resource in the accountability relationship and has always attempted to work closely with it. The ANAOs publication, A Practical Guide to Public Sector Internal Auditing - 1993 gives

further advice on the role and function of Internal Audit and the relationship between external and

internal audit The internal audit function has also received recognition in the CAC Bill and the FMA Bill through the requirement for the establishment and maintenance of audit committees by agencies.

The ANAO has long been a very strong supporter of the need for viable and effective internal audit functions in the public sector. The ANAO strongly believes that internal audit is an integral element of the internal control structure within agencies. Management in both the public and private sectors is under increasing pressure to attest to robust and reliable internal control arrangements as well as being more accountable for corporate governance. Both internal and external audit have important roles to play in assisting management to meet its obligations in these areas.

Our overall aim is to establish a cooperative relationship with internal audit. In this way, we can build on rather than duplicate important work that internal audit does. Internal audit being an essential element of the workings of an agency has the benefit of working closely with agency management and being aware of the risks and the priorities of an organisation at any point in time. Internal audit therefore should be very well placed to contribute significantly to an agency's internal control structure. Internal audit should, in my view, be involved in a positive way, in the development of all major systems, helping to ensure that there are appropriate controls put in place from day one.

In particular, the ANAO recognises the clear imperative for a close relationship between internal and external audit. Where there are clear similarities in the

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nature and scope of the activities being performed by internal and external audit, efficiencies can be achieved if external audit is able to rely on the work of internal audit and vice versa. However, there are also areas of complementarity which, if understood and planned for, will also achieve cost savings. This is being successfully implemented, for example, in the Commonwealth Bank audit with a one audit approach to maximise resource efficiency, deliver effective internal and external audit services and minimise disruption to the client. At the strategic planning stage, managers from internal and external audit jointly determine the risks, timing, scope and audit strategy for each auditable area.

Program Evaluation

The program evaluation function is also an integral part of the accountability process, and has an increasingly important part to play in the overall APS environment.

Central to the focus on outcomes has been the introduction of program evaluation in the APS, reflecting the importance placed on the monitoring and reporting of performance information and overall program performance. Increasingly, benchmarking techniques are being used to both develop and assess such performance. From its across the Service perspective, the ANAO should be able to identify and report on best practice in this respect to leverage up the benefits derived by individual agencies for other government programs.

The importance of evaluations has been highlighted in the MAB/MIAC report No 15 of October 1994 Ongoing Reform in the Australian Public Service, An Occasional Report to the Prime Minister

by MAB, No. 15, October 1994. After noting a number of significant instances where external scrutiny has raised concerns about issues in the quality of administration in the APS, the report stated that internal evaluations undertaken across the service are also vital for managers in appreciating where and how improvements can be made. The report also noted that:

- Working Nation, for example, relied heavily on findings from extensive evaluation activity in the employment, education and training portfolio; and
- several other evaluations in recent years have had a significant impact on Government decision making.

The report also mentioned the Department of Finance view that portfolio evaluation plans had shown a marked increase in quality and strategic usefulness but noted also that more could be done to link evaluation activity to the improvement of APS advice to Government and to enhancing program outcomes to the benefit of the nation.

In terms of making the best use of resources, the performance audit and the evaluation functions are integral to the accountability process and must therefore have regard to one another. They share reasonably common goals in that they

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are both fundamental links in the accountability continuum from inputs to outcomes, and both aim to better program management and accountability by looking at value for money, albeit from different perspectives, notably administrative versus policy effectiveness.

I can assure you that, in setting performance audit priorities, the ANAO does pay increasing regard to the programs of evaluations in agencies, and seeks to rationalise its coverage. The ANAO also has regard to other reviews being conducted whether by Parliament, by Committees, by independent Commissions or Bureaus or by other internal groups such as for Budget reviews. The continued improvement in Portfolio Evaluations Plans and Departmental/Agency Evaluation Plans assists the ANAO in its preparation of its Audit Strategy Documents. The presence of both these planning documents improves the assessment of the coverage by evaluations and performance audits within each portfolio. That said, I do not consider that such an approach in any way undermines my independence. I do not seek to duplicate evaluation work. However, if we see a gap in coverage, or the quality of work does not meet ANAO standards, then we would not feel constrained from looking at an area covered by an evaluation.

Establishing an appropriate balance between internal control and external review requires a sound appreciation of the accountability framework in which the two elements are required to operate.

Supporting Accounting and Auditing Standards

The ANAO recognises the need to contribute to the development of accounting and auditing standards. We have always taken an active role in the development of such standards, and our contribution in this area will continue, and indeed increase, through the ANAOs participation on a recently formed body known as the Urgent Issues Group (UIG) of the Australian Accounting Research Foundation. An ANAO representative is a member of this group as a nominee of the Australasian Council of Auditors-General. This Council is made up of the Auditors-General of the Commonwealth, the States and Territories, as well as our colleagues from New Zealand, Papua New Guinea and Hong Kong. As the name suggests, the UIG has a charter to consider accounting issues which require particular attention because of, for example, divergent practices. The UIG is unable to alter any Accounting Standards but may interpret them and may look at areas that they do not cover. Application of consensus views of the UIG is mandatory for the profession, including the public sector.

An ANAO representative is also a member of the Legislative Review Board of the Foundation. While the Boards main concentration is on legislation and other regulatory activity in the commercial sector, this membership has helped the Board, and the profession, to look more closely at developments in public sector legislation such as the FMA and CAC Bills.

My aim is to support acceptance of, and commitment to, the view that the public sector should be exemplary in its accounting practices and adherence to relevant standards and ethical behaviour. However, it is important that we endeavour to

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ensure those standards adequately reflect the nature of public administration where there are clear differences to the public sector. While I support the principle of one Auditing Standards Board, there must be a facility to recognise and deal with such differences by exemption, valuation or even separate standards.

Additionally, Ian McPhee, National Business Director, Performance Audit Business Unit is currently Chair of the Public Sector Accounting Standards Board which is responsible for setting accounting standards for the Public Sector. We will be also seeking to have greater involvement in the setting of auditing standards, in particular stressing any particular requirements of the public sector.

Partnering with the Accounting Profession

Another area of importance to the ANAO is its partnership with, and contribution to, the accounting profession. As a significant provider of auditing services, the ANAO recognises the importance of developing and maintaining close links to professional accounting and auditing bodies in Australia, such as the Institute of Chartered Accountants (ICA), the Australian Society of Certified Practising Accountants (ASCPA) and the Australian Institute of Internal Auditors (AIIA). On the financial statement side, the large majority of our audit staff is a member of one or two of these organisations. In my view, it is essential that professional bodies are both seen to be involved in the development of thinking on accounting and auditing issues as well as involved on the ground, so to speak, in the implementation of professional attitudes, approaches and techniques. In this way they can make both a direct and indirect contribution to resource management in the public sector. The relevant ASCPA Centres of Excellence are undertaking some useful initiatives in this regard.

IV. OPERATING IN A MORE CONTESTABLE ENVIRONMENT

In this address I have drawn on some of the comments I made to the Tenth International Financial Management Conference hosted by the International Consortium on Governmental Financial Management last October. In the paper Auditing Challenges into the Next Millennium - An Australian Perspective. Address to the

Tenth Annual International Financial Conference hosted by the International Consortium on

Governmental Financial Management. Washington, D.C., 12-14 October 1995 (pages 7-14) I distributed to that conference, I talked about the issue of contestability in the provision of advice and services in the public sector within the framework or concept of two public services. While the term reinventing government has received considerable publicity, particularly in relation to the United States National Performance Review, and before that from the Osborne and Gaebler book, Reinventing Government, David Osborne and Ted Gaebler. Addison-Wesley Publishing Co.

Inc., Reading, Mass. 1992 the developments in governance at the federal level in Australia could be more aptly described as government in transition. There has

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not been the policy/administration separation as witnessed in the United Kingdom or New Zealand, nor the extent of commercialisation, including the widespread use of contracts, and apparent contestability for supply of government goods and services as in the latter country. In short, the national Government in New Zealand has developed virtually a model of a market-oriented public service.

While there is no doubt about the greater discipline on resource management in a contestable environment, largely cash limited running costs budgets and the efficiency dividend have placed considerable pressure on most APS managers. The latter are now also required to test the market to ensure the most cost effective use of resources. Greatest pressure is probably occurring in the service delivery areas but, as the Secretary of Finance has observed on a number of occasions, even provision of policy advice is contestable. Nevertheless, I think many would have sympathy for the following observation made by two Australian academics last year:

... most program managers do policy while doing implementation. In practice the two tasks or functions are almost inevitably intermixed with the result that there are very few pure or ideal type policy-free managers or management-free policy advisers. Evaluation and Reporting Reforms Report prepared for the Senate Standing Committee on

Finance and Public Administration. John Uhr and Michael Di Francesco. Public Policy Program.

Australian National University, August 1994 (page 8)

Most traditional core government activities have a heavy emphasis on delivering policy as well as services. Most emerging non-core government activities deliver little or no policy but their goods or services are virtually the same as would be available from the private sector. Public goods arguments, in the economists terms, or lack of a competitive market have been used as justification for provision of goods and services by the public sector. Regulatory issues also enter the debate. Private monopolies are no more accepted than public ones, perhaps less so in some views. In effect, the issue of contestability and the vehicle for delivery is being decided virtually on a case by case basis which is partly why I choose to use the expression government in transition.

Two of the replacements for the Audit Act, the Financial Management and Accountability (FMA) and Commonwealth Authorities and Companies (CAC) bills broadly reflect the basic distinction between core agencies of Government and non-core entities controlled by Government. The ANAO has used this broad dichotomy to define its core business with the expectation that, over time, the distinction would become even clearer. We should have a significant comparative advantage in understanding the business of core government and its particular accounting and accountability requirements. This advantage should be even more apparent with the move to accrual reporting and the likely adoption of accrual accounting for management purposes in most agencies in the foreseeable future. We cannot claim to have the same comparative advantage in more commercial, market-oriented organisations that have many or most of the characteristics of their private sector competitors. Audits of those entities are

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contracted-out mainly to the Big 6 accounting firms. Nevertheless, our strategy is to leverage off those audits to improve our overall audit skills and knowledge and add value to resource management as part of our core business.

The main issue I want to deal with in an environment of greater contestability is the need to improve our management of contracts.

Managing Contracts for better resource use

A recent survey conducted by the University of Sydney Graduate School of Business on competitive tendering and contracting for services by Commonwealth Government budget funded agencies reported that:

- Forty-three Commonwealth Government agencies let contracts with a combined value of \$1 853 million in 1994-95.
- The agencies with the highest value of contracted services were the Department of Veterans Affairs (\$825 million) and the Department of Employment, Education and Training (\$303 million).
- Activities with the highest value of contracting expenditure were contract staff (\$804 million), program services (\$193 million), information technology (\$172 million), training, development and education (\$119 million), and transport management and services (\$109 million).
- The majority of cases reported outcomes as being very successful (15 per cent) or successful (58 per cent).
- Average management cost for a contract was 2.32 per cent of the contract value.
- Average net savings (i.e. net of management costs) calculated from 51 contracts was 16.3 per cent. Domberger S.G., Hall C.J. and Jeffries M. (1995). Competitive Tendering and Contracting in

Commonwealth Government Agencies : 1995 Survey Findings, Graduate School of Business,

The University of Sydney reported in Industry Commission in (1995). Draft Report on

Competitive Tendering and Contracting by Public Sector Agencies.

Increasingly, agencies are expanding their purchasing of services by the adoption of more contestable management approaches to service delivery. Contestability, as applied to service delivery in the public sector, is concerned with the potential

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level of competition in the provision of services. Baumol W. (1982) Contestable Markets: An Uprising in the Theory of Industry Structure

American Economic Review, Vol. 72, No.1, pp.1-15 Consequently, contestability focuses on the competitive threat of other suppliers of services to stimulate and enhance efficiency in the provision of public services.

The traditional modus operandi of the public sector made it virtually impossible for external suppliers to compete. This position arose from administrative restrictions on access to clients and the likelihood of new service providers incurring significant sunk costs to establish a market presence. The reforms undertaken by the Commonwealth Government to open the provision of services to market discipline has not only seen the sale of government assets but also the extensive introduction of competitive tendering arrangements for numerous services.

Steve Sedgwick, the Secretary of the Department of Finance, summed up the position in this way:

governments around the country are also seeing themselves as having more choice about how services are delivered. Increasingly they want to choose the most efficient and effective producer of the desired outcome, whether from within the public service or other sources. Managing Risk in the APS context - a continuous improvement strategy Speech by

Steve Sedgwick, Secretary, Department of Finance. MAB/MIAC Conference, Canberra,

11 October 1995 (page 2)

From the ANAO perspective we continue to make extensive use of contractors in undertaking audits. In 1994-95, the ANAO engaged 48 consultants at a total cost of \$2.65 million as temporary staff to assist in our auditing work. The ANAO expenditure on financial statement audit contracting increased from \$8.98 million in 1993-94 to \$11.08 million in 1994-95. The use of external contractors is an integral part of our overall strategy of ensuring that we have the capacity to adjust to current and future changes associated with the move to a more contestable and commercially oriented environment in the public sector.

The trend towards contestability in contracting of services has produced a number of benefits, not least, those of enhanced flexibility, reduced cost of supply and in the adoption of more innovative approaches to service delivery. However, with all advances there is the need to monitor arrangements to ensure that the public interests are adequately protected.

Against this background, I would like to make a number of observations on issues that have arisen in the course of the ANAOs performance audits. First, the need for reliable information is a basic pre-requisite for an effective contract and it is essential to the delivery of improved management of services to our clients.

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Agencies need to continue to improve their information systems if the full benefits of contracting are to be achieved.

A further issue relates to managing the Commonwealths financial risk exposure. An uncertain external environment and reduced flexibility has generally seen public sector agencies in other countries reluctant to enter long term contracts for service delivery. However, this has not been the case in certain areas of health care service delivery in Australia where there has been a substantial financial commitment to long term service delivery contracts. The appropriateness of the contract type, of course, needs to be determined having regard to the specific characteristics of the service being provided and not by any one-off considerations associated, say, with an asset sale.

My final point concerns accountability issues that arises with the contracting out of services. The Management Advisory Board in 1993 released a publication entitled *Accountability in the Commonwealth Public Sector* which provided an outline of the accountability framework along the following lines.

The successful implementation of the public sector management reform of recent years is dependent on a number of critical factors. These include the identification of clear objectives, matching of authority and responsibility and, importantly, a clear understanding and acceptance of the accountability relationships which exist within the public sector. Accountability in the Commonwealth Public Sector - An Exposure Draft. A joint publication of

MAB/MIAC. Report No. 5. AGPS, Canberra, June 1991 (page v)

The ANAO is a key participant in ensuring an effective system of accountability within the Commonwealth public sector. The process of contracting out of services raises issues for the ANAO of access to documents and disclosure of material to Parliament. The ANAO has found instances where confidentiality agreements are in place that may have implications for the level of information that can be disclosed to Parliament. The Ombudsman has recently referred to a no-mans land of accountability in relation to private sector contractors. A major challenge for all Commonwealth agencies, including the ANAO, will be to ensure that public sector accountability is not weakened by contracting processes.

V. PERFORMANCE MEASUREMENT AND INFORMATION

The demand for performance information has been guided by a rhetoric for change which involves the pursuit of efficiency value for money and accountability - which, Im sure as all of you here today will appreciate, are expressions close to my heart. Efficiency, Value for Money and Accountability have become catchcries in the administration of Commonwealth programs and have led to a demand for performance information that measures the achievement of program objectives and the outcomes from the delivery of programs as well as the efficiency of inputs and outputs.

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I would like to briefly outline my perceptions of the role of performance measurement and performance information in resource management within the Commonwealth public sector. My perceptions have been honed by the considerable pressure for a real cultural change in the Commonwealth public sector, particularly over the last decade or so. As mentioned earlier, this pressure for change has led to an increased focus on accountability for outcomes rather than just measurement of inputs and outputs. In turn, there has evolved a general concern for Commonwealth public sector performance measurement and performance information.

My comments bear on the nature of changes that have occurred within the Commonwealth public sector, the role of performance measurement and performance information in the reform framework, together with a brief outline of the reviews involving performance information that have been undertaken or are in progress. To illustrate, I will touch on some of the work of the central co-ordinating agencies and contributions by the ANAO to accountability for performance. I hasten to add that one of the major strengths of the resource management framework is the evaluation process. Evaluation both requires and can generate performance information.

Developing a performance management framework

We do well to recall that the increased focus on management performance has led to the development of three key initiatives in the Commonwealth public sector. These initiatives have been the Financial Management Improvement Program, Program Management and Budgeting, and Accrual Reporting, all of which have contributed to the move from simply reporting and measuring the inputs consumed in delivering programs towards assessing the outcomes from program delivery. These elements have significant implications for the measurement of performance both in quantitative and qualitative terms. I am constantly surprised about how little is still known about these initiatives by program managers who increasingly have devolved authority for resource management.

The Financial Management Improvement Program

The Financial Management Improvement Program (FMIP) has been a key element in enhancing resource management in the Australian Public Service (APS). The FMIP was initiated in December 1983 when the Government endorsed a joint Department of Finance and Public Service Board initiative which sought to improve financial and management practices throughout the APS in relation to resource allocation and priorities. The FMIP was a catalyst for more effective and efficient management of public sector resources. One could seriously question whether we could have as successfully made the transition to a more performance oriented environment without the building blocks of the Program.

The FMIP represented a shift in managerial emphasis from almost solely on compliance to a greater focus on program performance, such as through the management of programs against clearly defined goals and objectives. This shift

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has required improved coordination in setting priorities, resource budgeting and monitoring, improving management information systems and meeting staff development needs. In short, the FMIP provides the foundation for credible and useful performance information and better resource management.

Program Management and Budgeting

A fundamental purpose of Program Management and Budgeting (PMB) is to improve program performance and accountability for this performance. PMB complements the FMIP and involves processes which focus more on outputs and outcomes, rather than solely on the inputs to programs. This changed focus provides an emphasis on the efficiency and effectiveness of program delivery mechanisms and provides a more disciplined and transparent framework for decision-making, management and scrutiny of government activities than previously was the case.

The main features of program management and budgeting are:

- a hierarchical structure of programs and sub-programs;
- an emphasis on development of program objectives and strategies for achieving those; and
- a report on the extent of program achievement.

Program evaluation has become an integral part of PMB with requirements for both evaluation of all programs in a five year period and for all new policies submitted to Cabinet, including an evaluation strategy.

As we have seen, these features draw heavily on performance information and necessitate the support of appropriate information systems.

You would probably not be surprised that many of the audits undertaken by the ANAO have raised concerns about the paucity, or lack, of performance information, as well as of any application of performance measurement to program management and evaluation and, not surprisingly, of appropriate information systems useful for management and reporting purposes.

Accrual reporting and accounting for better performance

The introduction of accrual reporting and accounting can be considered the third major element of financial management reform in the Commonwealth public sector. Accrual accounting recognises the economic effects of transactions at the time they occur, regardless of their immediate cash flow effects. Under this accounting arrangement, costs incurred are matched with the benefits derived within a particular period to report resources controlled at the end of that period. Managers are still coming to grips with those concepts.

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Accounting reports, based on accrual accounting provide information useful for making and evaluating decisions about the allocation and use of all resources in the enterprise as a going concern and not just cash-based transactions at a point in time. The types of accrual accounting information relevant to agencies include:

- the full cost of operations, including the financial effect of decisions made, in a reporting period;
- the extent to which costs have been recovered in a reporting period; and
- resources held and obligations outstanding at the end of the reporting period.

I should mention in passing that the ANAO, in a recent performance audit, found that there is still a lot of ground to be covered if the Commonwealth public sector is to fully embrace the elements of accrual accounting in program management.

Measuring achievements

We can see that, taken together, these elements provide a transparent framework of accountability and a focus on improving management performance through providing mechanisms by which achievements against clearly defined goals and objectives can be measured. Inherently, these elements lend themselves to a fundamental questioning of performance measurement, particularly in respect of:

- the role of, and mechanisms for, developing performance information that Commonwealth entities use in their management and reporting frameworks;
- the development, availability and use of particular types of performance indicators as criteria for performance measurement;
- the meaning of existing performance criteria; and
- the existence of a system of periodic review of performance information and its use for assessing the administrative effectiveness or efficiency of performance measurement systems.

Performance information, to be relevant, should possess the following characteristics:

- it must relate to the stated objectives of the organisation;
- it should provide clear links between outcomes (impacts), strategies and program objectives;
- it must be as simple, concise and understandable as possible, consistent with its purpose;
- it must be specific, quantifiable and standardised to the maximum extent so that the information can be used for making valid comparisons within and between organisations;

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- if qualitative, it should be attested to by those immediately affected and be convincing;
- it must be balanced and credible in the sense of being free from systematic or unintended bias; and
- it must be useful and capable of acting as signposts to areas where questions concerning operations can and should be asked.

When all of these conditions are satisfied, we may be entitled to conclude that the performance information which we have is appropriate for performance measurement purposes.

Reviews of performance information and measurement

Performance information draws a commonality of interest across a wide range of agencies, extending beyond the keen and demonstrated interest of my own organisation in this area. Several major reviews of performance measurement and performance indicators have been or are presently being undertaken. Of particular interest are reviews by the Management Improvement Advisory Committee for the Management Advisory Board and the Department of Finance, as briefly outlined hereunder:

The Management Advisory Board/Management Improvement Advisory Committee Review

In consultation with the Management Advisory Board (MAB), the Management Improvement Advisory Committee (MIAC) has recently reviewed the use and impact of performance measurement and evaluation. The MAB/MIAC review found that significant progress had been made in the move to managing for results. In particular the review found that:

- the public service is becoming much more results oriented;
- performance measures are now being used in decision-making and to enhance external reporting;
- performance information was being used in both program management and in central decision-making, including in the budget context; and
- the quality of performance reporting has been improving.

This review also noted that managers were more aware of the role of performance information and were more prepared to use it in decision-making than they were previously.

On the downside, the review noted, there was scope for further improvement in the collection, analysis and use of information about program performance. For example, there was a need to balance performance measurement by:

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- emphasising the development of outcome oriented objectives;
- translating high level strategic objectives into lower level objectives against which performance can be effectively monitored on a day-to-day basis;
- adopting planning systems which encourage strategic thinking, and which link strategic plans to operational plans and individual performance agreements;
- distinguishing between program effectiveness and operational efficiency information;
- improving performance assessment in the policy and regulatory areas;
- refocussing targets to cover outputs and outcomes as well as throughput and activity; and
- distinguishing between short-term outcomes, such as direct client impacts, and long-term outcomes, such as the impact of a program on society over the long term.

As you will appreciate the findings draw heavily on the need for appropriate performance information. In fact, the MAB/MIAC review suggested that, when establishing performance information systems, managers should ensure that they draw on internal and external clients perceptions of the goods and services being delivered. Performance information should not be based solely on managers own views of what is important.

Review of the Quality of Performance Reporting

As an adjunct to the MAB/MIAC Review, in 1994 the Department of Finance commissioned an independent consultant (Ms Mary Duckett of DGR Consulting) to assess the quality of performance reporting by departments in their 1993-94 annual reports. The Duckett report found that, among other things, that the quality of performance information provided through the annual report mechanism was generally poor. The review considered there was scope for improvements in information for internal management purposes, which would lead to more effective design and execution of programs and better budget decision-making.

Following on from this review, the Department of Finance has now commenced action to co-ordinate a review of the quality of performance information used by Commonwealth departments, Parliamentary departments, and a small number of budget-funded agencies. This review is to commence in 1995-96, with a report on its progress expected by February 1996.

Performance Information Review

The Performance Information Review (PIR) is a series of reviews to be co-ordinated by the Department of Finance in selected agencies, to establish, in a constructive and consultative manner, the quality and clarity of existing objectives and performance information, and identify good practice. Where necessary, the PIR is required to propose improvements, or a strategy for making those improvements, to program objectives and performance information. The PIR will

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examine each program down to at least the level at which performance is publicly reported.

The ways in which each selected agency might decide to prepare its PIR Report are still being considered and will be determined in consultation with the Department of Finance.

Performance audits by the ANAO

As I mentioned earlier, performance measurement and the use of performance information have particular relevance in accountability for results and continually improving public administration. Performance audits undertaken by the ANAO have covered a wide range of program administrative arrangements in a variety of different programs. Each of these programs has its own distinctive features which are apparent in any evaluation. We endeavour to ensure that evaluations and performance audits are complementary. There has been a degree of frustration on both sides at apparent overlap and duplication. I suggest this can largely be overcome by close consultation and co-operation on the preparation of the ANAOs audit strategy documents (ASDs) which have as one of their purposes a policy of no surprises.

Many of the audits that have been undertaken have raised concerns about the way in which performance has been measured and the availability and use of performance information. I would like to briefly outline some of the findings to you, on the basis that these are indicative only and do not represent best or worst case scenarios.

Over the last few years the ANAO has undertaken a number of audits which examine the way departments use performance information. These audits have identified a range of areas in which improvements in the nature of performance measurement and the use of performance information are needed. Of particular audit interest is an absence of or imbalance in the development of performance indicators. For example, in those areas where performance information is considered to exist, this information has tended to related to quantitative measures as distinct from qualitative measures. Whilst quantitative indicators are practical and facilitate the measurement of tangible outputs, these need to be considered in conjunction with qualitative measurement which, whilst somewhat more difficult to determine and apply, help to provide a better balanced assessment of performance outcomes against policy objectives.

ANAO performance audits in recent years have found that there is scope for significant improvement in the definition and linkage of policy objectives to the strategies designed to achieve them and to subsequently develop performance indicators to measure the degree to which the strategy proposed has actually facilitated the achievement of the intended outcome. In those respects I can agree with comments recently made by the NSW Auditor-General as follows:

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The Audit Office should not be expected to develop the indicators applicable to Government entities and their programs. That ought sensibly be a responsibility of management. But the independent auditor can have a role that helps to ensure that management does report on performance indicators in an effective manner. The Changing Role of the Auditor in the Public Sector Tony Harris, NSW Auditor-General.

NSW CPA State Congress. Sydney, 23-25 October 1995 (page 7)

Some indicative examples of the wide range of performance measurement and performance information issues arising from our audits is briefly outlined below:

- *Regional Office Resourcing and Benefit Processing, Department of Social Security (Report No. 4 of 1995-96)* - this audit found that there was scope for significant improvement in key performance indicators. Staff performance and attention was focused on a limited range of activities measured by performance indicators which could result in substantially inferior performance in other areas that may still have significant impact on service objectives. The ANAO recommended that all significant strategic goals and priorities relating to the Regional Office network performance needed performance indicators.
- *Community Development Employment Projects Scheme, Aboriginal and Torres Strait Islander Commission (Audit Report No. 6 of 1995-96)* - this audit found that performance indicators needed to be improved in order to ensure that it provided a framework for project management, accountability and control. The audit also found there had been a tendency to design indicators for outputs to the detriment of outcomes and there needed to be a clearer link between strategies and outcome measures.
- *Commonwealth Employment Service, Case Management, Department of Employment, Education and Training (Report No. 3 of 1995-96)* and *The Use of Private Hospitals, Department of Veterans Affairs (Report No. 28 of 1993-94)* - these efficiency audits found that internal management information systems were not being utilised to their full capacities. Information that was available was not being used to measure outcomes in order to improve service delivery. In addition, the CES Case Management audit indicated that some statistics which were being reported could have given a misleading impression of the effectiveness of case management in overcoming barriers to employment.
- *The Local Capital Works Program, Department of Housing and Regional Development (Audit Report No. 14 of 1994-95)* - this audit found that, wherever possible, program indicators needed to be more clearly linked to the fundamental objectives of the program and agreed prior to program implementation. However, the audit also acknowledges that there were instances, as in this program, where limitations in national economic modelling capacities made it difficult to accurately assess the outcomes of a one-off fiscal stimulus;

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- *Pay for Performance (Report No. 16 of 1993-94)*, provided a useful insight into indicative APS performance measurement practices. This audit found that 23% of the agencies audited had not finalised the development of performance indicators to measure of the effectiveness of their performance appraisal scheme. In addition, another 18% of those agencies audited had not developed such performance indicators. Interestingly, of those agencies who had performance indicators in place only 20% contained indicators other than completion of staff attitude surveys. The ANAO expressed concern at the number of agencies which did not have performance indicators that would provide sufficient assurance that performance appraisal has resulted in an improvement in performance against corporate goals. In this instance the ANAO recommended that all agencies develop quantitative and qualitative performance indicators and review existing methodologies for assessing outcomes against objectives.
- *Compensation Pensions to Veterans and War Widows, Department of Veterans Affairs (Report No. 8 of 1992-93)*, found that, among other things, inadequate management information and program evaluation, and a low priority given to performance measurement, had resulted in the Repatriation Commission being unable to provide Parliament with adequate analysis of program results and what these mean for the effectiveness of the program. For example, the impact of the smoking hypothesis was unable to be quantified and the impact of the issue had been greatly underestimated by the department.
- *Financial Management, Department of Veterans Affairs (Report No. 7 of 1995-96)* - this audit found that performance criteria based on financial information had not been developed and financial information was not used to measure performance.

These audits are samples of the broad forms of performance measurement and the nature of performance information that is available. Whilst some of the issues identified may seem to you to be simple, overall they form part of the move to better resource management in the Commonwealth public sector. The underlying issue arising from audits, such as those outlined above, is the need for agencies to develop clearer strategies for achieving policy objectives and to facilitate the efficient delivery of departmental programs.

Conceptual issues arising from reviews

In general terms, the findings of the reviews and audits I have mentioned, have identified several conceptual issues that organisations should address in undertaking performance measurement and in using performance information. For example, effective and efficient performance measurement requires certain attributes to be satisfied and attention to certain detail, vis:

- objectives should be clear and unequivocal, and capable of being measured using readily identifiable performance information;

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- however, there may not be a clear set of over-riding objectives for the public sector that are capable of being measured using performance information - for example, objectives aimed at serving the public interest raised questions about the identification of performance information to measure the public interest, assuming that such interest is capable of being measured; and
- accountability for outcomes pre-supposes that program outcomes are capable of being identified and that performance information to measure these outcomes is readily available - but what is the outcome of, say, our systems of social welfare, health, law and education and what performance information is appropriate to measure this outcome?

Against this background of uncertainty many of our audits have asked fundamental questions such as:

- Is performance monitored?
- Do internal and external reviews of performance exist?
- How do performance reviews fit into existing management systems?
- What is reviewed?
- What happens as a result of the review?
- Does performance measurement change the organisational process or structure?
- Does performance measurement change policy?
- What indicators (other than financial indicators) are used to measure performance?
- Over what time scale do performance measures apply?
- Are different performance indicators aggregated?

Benchmarking

Benchmarking is a management tool or a business strategy that selects the key processes and strategies that impact on the clients or customers expectations and measures these against recognised best practice. As a key management tool in developing and maintaining good business performance the ANAO is keen to encourage and develop benchmarking and best practice in the Australian Public Service.

The ANAO is committing increased resources to identifying areas of best practice as well as identifying those areas where improvements in administration are required. Best practice guides on topics as diverse as grants administration, internal audit, and the sale of Commonwealth assets, have been produced by the ANAO. In my view, it is by focussing our attention more on best practice models and ways that administration can be improved, rather than simply highlighting areas of deficiency, that the ANAO can be of greatest assistance to management, the Executive and the Parliament. I referred to this approach in our new audit product discussed earlier.

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In keeping with our aim of adding value, we keep a very close eye on the costs of our performance audits. I am pleased to say that we appear to be doing well by international benchmarks in that the average cost of ANAO performance audits reported in the three years 1992-93 to 1994-95 compares favourably with those of the United Kingdom National Audit Office, Office of the Auditor-General of Canada and United States General Accounting Office. Although there are a number of difficulties in making cost comparisons, our analysis indicates we are producing our performance audits at one of the lowest costs around. However, like our overseas colleagues, we continue to strive to maximise the value of the dollars we invest in our performance audits and will keep our focus on this aspect of our operations, particularly through our internal and external benchmarking and continuous improvement programs.

As a member of the Australasian Council of Auditors-General (ACAG) the ANAO is currently involved in three separate exercises that attempt to benchmark the operations of audit offices in different arenas. The Western Australian Auditor-General is heading a Centre of Excellence addressing benchmarking and performance indicators for audit offices within ACAG. Data currently collated shows some interesting bases for comparison. Additionally, the ANAO has assisted Price Waterhouse in undertaking a Performance Audit of our Victorian colleague by providing details of the breadth and extent of our current operations, whilst individual work with the New South Wales Audit Office has focused on measuring the performance of their Performance Auditing work. Each of these exercises demonstrates the importance of developing and working with others in like or similar industries to develop and improve business practices.

However, it should always be remembered that benchmarking is of limited value if undertaken in isolation, undertaken on non-comparable data or conducted as a one-off exercise. To be of continuing value it must be incorporated into the culture of the organisation and assessed regularly against all aspects of the organisations operations.

SUMMARY COMMENTS

The ANAO has both the obligation to provide reasonable assurance to the Parliament that resource management in the APS is efficient and administratively effective and the responsibility to add real value to its performance. We will do this by being more involved in developing across the service initiatives and approaches, under the auspices of MAB/MIAC or any other central and/or line agency group, where we have particular knowledge and expertise. This will benefit the ANAO by giving it a better understanding of the thinking behind, and directions being taken in, developments in governance. In short, we will have a better understanding of the business of government. In the same way, we will be working more closely and co-operatively with individual entities to ensure we have a better understanding of their functions and the imperatives that are driving them. We should be able to act both as a catalyst for, and a disseminator of, better or best practice within and across those entities from our service wide perspectives.

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All of us need to commit to continuous improvement processes to ensure our people are focussed on achieving best practice.

Better resource management starts first with our people. Their personal development, including the ability to be flexible and adaptable to change has to be a top priority. The HRM framework that has been developed needs to be applied in a supportive and credible environment within each entity in a way that provides both leadership and confidence to our staff. It is essential that public service values are endemic to our management and administrative processes. Ethics, integrity and even-handed treatment should be continually stressed. Adequate guidance in these and other respects must be provided to all levels of an organisation. The ANAO has conducted at least some audits in the HRM area in recent years and will continue to do so in order to learn from, and reinforce, best practice in the main elements of the framework.

The importance of other resources varies across entities but few would doubt the growing significance of our information assets. Best practice in accessing and using information is rapidly being provided by technology. That technology is basically communications and computing. It is an area that has often been avoided by managers in the past. Unfortunately with our growing dependence on this asset for strategic management and delivery of program outputs and outcomes, many managers have abrogated much of their responsibility, either by default or by intent, to their computing/communications staff. However, this situation is changing with the growing awareness of its strategic and operational importance to the business, the increased computer literacy of staff generally and the greater user friendliness of the systems and applications for accessing and manipulating the data. For managers, the availability of executive or decision support systems literally provides required information at their fingertips. Information has suddenly become useful and in high demand. So much so that managements attention is now being focussed on its integrity and security. Within our limited resources, the ANAO can provide some assurance at the systems development stage about effective internal controls and guidance on security aspects. I stress this is yet another area in which we are all having to learn quickly and mutual benefits will flow from shared experiences.

Accountability for performance has become the hallmark of the various public service reforms over more than a decade. It is difficult to live up to. But we need to be able to show clearly how successful we have been. That means transparency of results. The FMIP/PMB framework has been very useful in that respect. I contend it has also greatly facilitated decision-making. No one pretends that it has been easy or costless. The focus on managing resources rather than managing cash will also be considerably assisted by the adoption of accrual accounting and managing and reporting on an accrual basis. Again, the management task is being inhibited by inadequate systems. But there are efforts being made as evidenced in the recent Audit Report on financial management in the Department of Veterans Affairs. Financial Management, Department of Veterans Affairs Audit Report No. 7 of 1995-96. AGPS, Canberra, November 1995 That report included indicative checklists for a Framework for Financial Management in Programs (Appendix C) and for Issues to be Considered in Developing the Financial Management Setting within Individual Programs (Appendix D).

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Better practice is emerging in the various business units of the Department of Administrative Services. The new audits of Financial Controls and Administration, as discussed by Bill Nelson yesterday and referred to by me today, can be expected to both identify, and aid the dissemination of, best practice with their across the service perspective.

At the macro level, the accounting profession is taking a lead by promoting Whole of Government Financial Reporting with the implementation of a standard in 1998-99. We expect to see the JCPAs further report on this topic in the near future. The ANAO has been working closely with the Department of Finance on the relevant issues as well as providing comments on the draft standard. We will no doubt be looking at the experience in New South Wales and overseas in countries such as Canada and New Zealand for guidance. The usefulness for resource management may well come from trend analysis and early warning of intertemporal differences in the effects of various resourcing decisions. However, this is still a matter for Government decision.

Another area of some controversy but growing support is risk management. Public Service managers have seldom addressed the various risks to their programs, material or otherwise. In essence, that means we are not very adept at identifying risks let alone assessing their possible impact or assigning priorities to them. If anything, the culture of the past has made managers risk averse. Tony Blunn, Secretary of the Department of Social Security, observed at an Executive Breakfast on Reinventing Government last Tuesday that reaction from Parliamentarians often reinforced this behaviour. The draft guidelines on Risk Management prepared by MAB/MIAC should help in alleviating this situation. The ANAO is well versed in risk management in its own operations as well as from both its financial and performance audits. I will be reporting to Parliament next week on our assessment of risk management in selected agencies as part of the financial statement audits for 1994-95.

Two areas of particular interest for resource management in the immediate future will be corporate governance and internal controls. Both are integrally related with the risk management approach. Interest in these areas is by no means confined to the public sector or, indeed, only the concern of the private sector. Essentially, corporate governance is about the system by which businesses or functions are controlled and managed. The issues are largely about accountability and performance. The ANAO will be identifying and following up corporate governance issues with agencies in 1996. We will also be looking for assistance from the Profession. This is part of our own continuous improvement processes, including the use in the Financial Audit Business Unit of Breakthrough teams.

Perhaps the most significant challenge perceived by managers in the immediate future is operating in a more contestable environment. The Federal Government has been gradually adopting more commercial market-oriented approaches and mechanisms across the public service as a means of improving its performance. Clearer distinctions have been drawn between traditional core government functions and non-core activities which have been fully or partly privatised or provided with a corporate or quasi-commercial form within the public sector environment. Both the business units in the Department of Administrative

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Services and the Legal Practice unit in the Attorney-Generals Department are a hybrid of these two groupings. The dichotomy is being strengthened by two of the bills replacing the current Audit Act. The ANAO has defined its businesses in broadly the same way with the private sector mainly providing financial statement audits, under contract, for Government Business Enterprises. We are leveraging off our involvement with those audits to provide better services to the more commercially oriented approaches being taken across the core government functions including the direct provision of service delivery by the private sector. The latter is creating somewhat of a dilemma for auditors with a lack of clarity as to just how far the audit processes can extend into the private sector suppliers business. In the short term, this may be crystallised through the contract arrangements. One consequence for better resource management of a more contestable environment is the need for public service managers to become more skilled at developing, but more particularly managing, contracts over their lives. The growing emphasis is on partnership to achieve cost effective outcomes where resolution of conflict does not necessarily mean early recourse to legal advice about the wording of those contracts. The ANAO has considerable experience to bring to this issue.

Finally, there is no doubt about the relevance and growing importance of performance information for better resource management. Again, the FMIP/PMB framework is providing a useful context for determining appropriate performance measures and assessments. We all recognise the difficulties in determining readily understood and credible outcome oriented information. Many managers are still largely providing their outputs as outcomes. But there are good examples of outcome measures. These views are confirmed by the recent MAB/MIAC study and by a review commissioned by the Department of Finance of departments 1993-94 Annual Reports. The most recent development is the announcement of a Performance Information Review co-ordinated by Finance, in selected agencies, briefly, to establish the clarity of existing program objectives and performance information and identify good practice. I am certain that the ANAO can add value in this connection through its performance audits. I can illustrate our interest and commitment by reference to a current audit which is examining the role of performance information and the use of this information in decision making and in providing a framework for program accountability and control. In particular, the audit is examining the degree to which performance information:

- establishes clear links between reported outcomes strategies, and program objectives;
- focuses on outcomes achieved, and
- is concise, readily understandable and balanced.

I expect the findings arising from this audit will reinforce the need to continually improve the focus on program outcomes.

Performance assessment requires the measurement of gains and sacrifices, or cost and benefits to determine the different values of the alternatives for preference ranking. In the Commonwealth public sector there are a broad range of matters for which managers are accountable. For example, in addition to general areas of probity, economy, efficiency and effectiveness, managers are

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accountable for the availability of services, user awareness of services, the supply of service relative to demand, user satisfaction, quality, fairness, equity and equality of outcomes. Obtaining performance information on these matters is not easy and, in some cases, needs to involve the exercise of judgement and even some imagination.

Performance information is central to providing an outcome focus and assessing the degree to which departments have embraced public sector reform and how well departmental programs are performing. Clearly, our audit work complements the work on performance measurement and performance information being undertaken by the central co-ordinating authorities, such as the Department of Finance and MAB/MIAC. This work is relevant to all Commonwealth public sector agencies. But we are probably still in the early part of the journey.

In my view, the public sector has significantly grown in coverage of community issues and in complexity. Successive Governments have been concerned to constrain their budgets and keep the federal sector around a quarter of gross domestic product. Undoubtedly, this has placed considerable pressure on public service managers to provide better resource management. Again, in my opinion, they have done so - as is also evident from many audit reports. The resource management framework has survived a fairly critical decade which initially saw it as a passing fad but now regards it as the way to do business. The ANAO has to contribute to the further development of that framework from its across the service perspectives and, in particular, by identifying, reinforcing and disseminating better or best practice. In that respect, we have to get our own house in order, including learning from our colleagues elsewhere in both the public and private sectors. We will add value by mutual support and sharing of information and experience. The Australian community can expect no less of us.

Attachment

ANAO AUDITS IN THE AREA OF HUMAN RESOURCE MANAGEMENT (HRM)

- Auditor-General Report No. 27 1994-95
Studybank
- Auditor-General Report No. 26 1994-95
Inoperative Staff in the APS
- Auditor-General Report No. 4 1995-96
DSS - Regional Office Resourcing and Benefit Processing
- Auditor-General Report No. 17 1993-94
Underperforming officers in the APS - a question of efficiency

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- Auditor-General Report No. 16 1993-94

Pay for Performance - Performance Appraisal and Pay in the APS

- Auditor-General Report No. 30 1992-93

Senior Officer Work-related Expenses

- Auditor-General Report No. 28 1992-93

Report on Ministerial Portfolios, Autumn Sittings 1993 - Human Resource Management

- Auditor-General Report No. 45 1991-92

Department of Veterans Affairs Outsourcing - The Management of Redundancy Arrangements

- Auditor-General Report No. 37 1991-92

Management of Central Office Training in Selected Departments

- Auditor-General Report No. 30 1991-92

Australian Taxation Office - Attendance and Absences