

Canberra Evaluation Forum

The ANAO's Contribution to Improving Public Sector Administration

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*With thanks to Ron Richards of my Office
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I Introduction

I appreciate the opportunity to speak at your forum once again — two years ago I canvassed the topic — *Evaluation and Performance Audit: Close cousins or distant relatives?*¹ My underlying theme then was the contributions that performance auditing and program evaluation can make in adding value to public administration.

Today I have been asked to outline how the ANAO's audit coverage acts as a stimulus for better public administration. I have also been asked to address the complementary work undertaken by the Joint Committee of Public Accounts and Audit (JCPAA), the evaluation and internal audit functions within agencies, and the Cabinet Implementation Unit.

Over the last 20 years we have witnessed the public sector undergo significant change with an increased focus on efficiency and better ways to deliver government programs and services, and accountability. Associated with these initiatives has been a shift from a heavily 'administrative' APS culture to a 'managerial' approach that has focussed on eliminating unnecessary rigidity in public administration, allowing agencies the flexibility to tailor solutions to particular programs.

Getting the incentives right for the public service to perform strongly is the equivalent to the quest for the Holy Grail.

As far back as 1906, Mr D McLachlan, the first Public Service Commissioner, was reflecting on the issue of incentives:

*The great incentive, which is ever present to the businessman, is, by the very nature of things, absent in public administration. The department of the Civil Service which he administers (or assists in administering) is not his own; he suffers no personal loss; he enjoys no personal gain; and why should he bother? Why should he incur the odium of his subordinates by enforcing strict discipline and insisting on continuous and undivided attention to duty? Why should he addle his brain and burn the midnight oil in studying the literature of other nations for improved methods when he gets no special thanks for it, but probably finds himself in the end for little better off financially than if he had allowed things to drift along in the old way? These are the questions commonly put to himself by the perfunctory official and they constitute one very potent reason why Civil Service administration has not attained the high state of efficiency that the public interest demands'*²

Governments and officials have been seeking to improve public administration through legislative, policy, and administrative changes ever since those early days. The various interlocking frameworks covering arrangements for budgeting, performance management, industrial relations and so on, need to:

- reflect the fundamentals set out in our legislation and policies;
- accommodate the diversity of Australian Government functions;
- encourage strong performance; and
- facilitate accountabilities to government and the Parliament.

Over time, there are inevitably changes in legislation and policies affecting public administration by governments, with different emphasis being given to particular elements of the various frameworks. Examples of the latter included the ebb and flow between centralisation and devolution of administrative arrangements, the emphasis given to outcomes or rules, and even the focus on cash or accrual accounting information.

The tide has been known to go out on some elements of frameworks that were implemented with good intentions. An example that comes readily to mind was the Agency Banking Incentive Scheme (ABIS) which, when it was introduced in July 1999, was intended to provide agencies with an opportunity to earn interest on surplus departmental funds. Although ABIS was intended to be Budget neutral, an ANAO performance audit of the new transactional banking arrangements found that, in practice, this had not been the case. In line with subsequent recommendations made in the Budget Estimates and Framework Review, from 1 July 2003 a just in time draw-down model was implemented for the release of cash from the Official Public account to agencies and ABIS was discontinued.

In the overall scheme of reforms, though, we should be pleased with progress that has been made, and the regard the Australian public sector reforms are held internationally. The renewed focus on outcomes, performance indicators, and transparency in government administration that we are presently seeing is a strong positive signal underscoring the value of these dimensions of program management.

When Ministers underline the importance of outcomes, performance indicators and transparency in public administration, it doesn't take long for agencies to pick up on this. This augers well for a stronger focus on the performance management framework, and evaluation – a subject of significant interest to this audience. A stronger focus is important as the challenges in assessing the effectiveness of some programs, involving substantial levels of government funding, should not be understated. By having more reliable performance information, governments are able to better target policies, and to explain to the electorate the reasons for policy adjustments and any changes in levels of program funding. Ministers will be looking to departments for the evidence on program performance.

In addition to managing the performance of programs and responding to policy changes early in the life of the new government, many agencies are also re-engineering their core business delivery mechanisms. This brings benefits in terms of improvements in service delivery, better information for decision making, and being better able to protect the Commonwealth's interests. It also takes the time of senior executives.

Managing in this climate is demanding. Being positioned to provide sound advice to government on policy options, establishing strategies to deliver on new programs on a timely basis, and delivering ongoing programs to customers, all in a tight market for resources and staff, will stretch many agencies. This is the time that leadership and governance is critical to success. And the most challenging task for senior executives is to make the time to ensure that these key elements of their responsibilities are delivered on.

The ANAO has been on the scene since 1901 and has chronicled some of the successes and failures in public administration over the years, particularly since 1979 when the office was given the role to examine the effectiveness of public sector entities in meeting their objectives and using resources efficiently. This was primarily to provide Parliament with assurance on the state of selected areas of public administration. Importantly, though, it also informed Ministers of the state of administration within portfolio agencies.

The history of the introduction of the ANAO's efficiency audit program and its transition into performance auditing is well covered in our publication *From Accounting to Accountability: A Centenary History of the Australian National Audit Office*³ so there is no need to track over this ground here, suffice to say, that the performance auditing has reached a level of maturity today where it is seen to help shape public administration, and complement our traditional assurance auditing role.

Successful public administration promotes efficient and effective resource management by ensuring: responsiveness to clients, transparency in government operations and accountability for government actions, fair dealing between government and citizens, and the ethical behaviour of public officials.⁴

It follows that performance auditing can play an important role in providing that independent examination of issues of real significance to public sector administration. The resulting audit findings and recommendations, tabled in the Parliament, in turn act as catalysts for improving public sector performance. The reason that the ANAO's performance audits are seen as successful is that our approach is built on solid foundations, buttressed by our guidance on better practice and complementary review activities.

The foundations of our approach are:

- an effective audit mandate and an independent reporting role to the Parliament, and the establishment of the ANAO, all of which are underpinned by the *Auditor-General Act 1997*;
- a sound audit methodology based on auditing standards;
- a consultative approach to our work, where possible, by liaising co-operatively with those having key governance responsibilities in agencies, including Audit Committees, to achieve a very high acceptance of our audit recommendations; and
- the ongoing support of the Parliament and the Joint Committee of Public Accounts and Audit (JCPAA).

And, complemented by:

- our Better Practice Guides (BPGs);
- our Audit Focus newsletters; and
- review activity undertaken, including by PM&C's Implementation Unit and agencies' internal audit and program evaluation functions.

Before I touch on some of the ways the ANAO has contributed to improving public sector administration, it may assist to provide a brief snapshot of the ANAO and the way we operate.

II About the ANAO

The ANAO is the public sector auditor as well as an agency in this public sector environment that strives to improve performance. We have a wide range of stakeholders (none more important than the Parliament) and our mission is very much focussed on improving public administration. In delivering our assurance audit (primarily financial statement audits) and performance audit programs, we are constantly examining how to leverage from our work for the benefit of agencies within the APS.

Staff of the ANAO, which numbers just over 300, have demanding roles due to the level of technical, analytical, communications and relationship management skills required from them to operate effectively. Our office budget is some \$64 million for 2007-08 against the background of a consolidated Australian Government public sector budget of around \$300 billion⁵ for the same period.

At an operational level, we need to allocate office resources having regard to my statutory responsibilities to undertake financial statement audits of all Australian Government controlled entities and their subsidiaries, with the balance of resources devoted to performance audits that make a difference, and other avenues to improve public sector performance together with assistance to the Parliament. The approximate split to these categories is 63/33/4.

One of the more interesting developments in recent times has been the greater use of the ANAO to undertake additional assurance engagements e.g. to provide opinions on sustainability reports prepared by agencies, and the proposal to provide assurance on the Top 30 Defence Materiel Organisation acquisition projects, in response to a request from the JCPAA.

III The Parliament and the JCPAA

From the discussion on my mandate and role, you will appreciate that it is essential that Members of Parliament have confidence in, and be able to place reliance on, the work of the ANAO. The Parliament looks to my Office for assurances that government agencies perform their functions efficiently and effectively. Indeed it is this special relationship between the Auditor-General and Parliament that is the corner stone of the effectiveness of the ANAO.

One measure of our effectiveness, as set out in our Corporate Plan, is that Parliament acknowledges the value of the ANAO's contribution. Of the Parliamentarians survey in the 2006-07 reporting period, a heartening 93% expressed satisfaction with our products and services.⁶

The ANAO is committed to supporting the Parliament in its work through the tabling of our audit reports and providing specialist assistance to Parliamentary inquiries. Indeed, the ANAO values the relationship it has with Parliamentary Committees and we seek to assist Committees whenever possible through our work and to provide evidence on issues where we have relevant audit experience.

Specifically, that ANAO has a special relationship with the Parliamentary Joint Committee on Public Accounts and Audit (JCPAA). Both the *Auditor-General Act 1997* and the *Public Accounts and Audit Committee Act 1951* recognise this position. As many here may know, the JCPAA is one of only a small number of committees of the Parliament established by legislation — under its charter, the JCPAA may, *inter alia* :

- advise the Auditor-General of the audit priorities of the Parliament;
- examine all reports of the Auditor-General;
- consider the resourcing and budget estimates of the ANAO; and
- reject a Government proposal in relation to the appointment of the Auditor-General — recognising the special relationship between the Office of the Auditor-General and the Parliament.

I should point out however that neither the JCPAA, nor the Government, may direct the activities of the Auditor-General, however, as a matter of course I do consult with the JCPAA (and through the JCPAA, other committees of Parliament) and public sector agencies when framing our program. Additionally, the Parliament or its Committees, Ministers and Members of Parliament may request audits for particular purposes, and if the Auditor-General agrees to undertake these audits, he/she is accountable to the Parliament for their delivery.

The JCPAA reviews all performance audit reports. The Committees of the Parliament may, if they choose, conduct an inquiry into any aspect of a performance audit. This is a role which the JCPAA considers to be important in the process of ensuring that the Executive is held to account by the Parliament. Throughout its long history, the JCPAA has produced reports which have influenced the shape of the legislative and administrative framework within which public administration is conducted — based on the Committee's consideration of ANAO audit reports.

IV Audit Methodology and Standards

In order to properly fulfil my mandate all audits undertaken by the ANAO are carried out in accordance with the Australian Auditing and Assurance Standards. The Auditing and Assurance Standards set out the basic principles

and essential procedures to be followed, together with related guidance promulgated by the auditing profession.

The inherent qualities of performance audits include: independence, integrity, objectivity, professional competence, due care and professional standards. In addition, audits are required to be undertaken ‘with an attitude of professional scepticism.’

The specific standards that apply to performance auditing are:

- **AUS 806**—Performance Auditing which applies to all performance audits, that is, whether a report is published or not, whether the audit is undertaken in the private or public sectors, by an internal or external auditor, or as a one-off project or as part of an ongoing engagement.
- **AUS 808**—Planning Performance Auditing which provides guidance on planning a performance audit and makes the point that the audit mandate guides the planning process.

These auditing standards are currently being revised by the Auditing and Assurance Standards Board with a new performance auditing exposure draft standard expected to issue shortly for comment.

Within the family of auditing standards issued is a framework for assurance engagements which is intended to cater for the growing assurance industry beyond the audits of financial statements. This material is noteworthy because it provides a framework by which an auditor, or other practitioner, expresses a conclusion on subjects other than financial statements. We are currently examining this aspect in the context of the JCPAA’s request that the ANAO provides assurance on the ‘Top 30’ Defence (Defence Materiel Organisation) acquisition projects.

The ANAO is continually reviewing its approach and methodology to ensure that our audit coverage provides an effective and independent review of the performance and accountability of Australian Government public sector entities. Our performance audit coverage is targeted to maximise the Office’s contribution to improved public administration.

V Improving Public Administration through sound audit recommendations

The ANAO produces around 50 performance audit reports a year. An important focus of all performance audits is the identification of better practice and making recommendations aimed at improving efficiency and administrative effectiveness. Thus, the ANAO frames its recommendations to assist agencies in achieving better outputs and outcomes and promoting improved performance while reflecting public service values and ethics.

To be effective this requires agreement with, and commitment by, agencies to implement those recommendations within a reasonable timeframe. Thus, to provide the best chance that the ANAO’s audit reports act as a stimulus to

improving public sector administration, it is important that we work co-operatively with agencies to gain genuine acceptance of our recommendations. It is worth noting that our audit recommendations have achieved overwhelming acceptance by agencies (and the JCPAA) — this is shown in the following table.

Table 1 – Percentage of Audit Recommendations Accepted for Implementation

Year	Number of Reports	Number of Recommendations	% Fully Accepted	% Accepted with qualification	% Not Accepted
2004-05	56	354	91%	9%	0%
2005-06	50	257	89%	10%	1%
2006-07	51	192	92%	7%	1%
2007-08 (up to 24 Jan 2008)	19	58	100%	0%	0%

Source: ANAO

For my part, the preceding table also shows, by inference, that our preferred approach of working with agencies to ensure recommendations are appropriately targeted and encouraging agencies to take early remedial action on any identified matters during the course of an audit is ‘bearing fruit’. The number of recommendations accepted fully for implementation is around the 90% mark (100% this financial year) with a further 9% on average, accepted with some qualification. This is achieved in part by consulting with agencies on the best solutions to addressing any structural weaknesses or performance issues.

Additionally, the table shows a significant trend — our audit reports are making fewer but more focused recommendations. It has always been my contention that it is not the number of recommendations made *per se* that provides the stimulus for improved public sector performance but rather it is fewer, tighter, well researched recommendations dealing with material issues that make the difference. I might add, in the interests of balance, that some agencies have suggested their performance is obviously getting better due to the fewer number of ANAO recommendations — but I am not yet ‘over the line’ on this hypothesis!

While the ANAO endeavours to construct recommendations that will be fully accepted and implemented by agencies, occasions do arise where a difference of opinion is held. In such situations, we report both positions to the Parliament. More generally, since July 2003 full agency comments on a proposed report are now published in each final audit report — this follows a recommendation by the JCPAA.

The impact of our recommendations is assessed through the conduct of selected follow-up audits which determine whether they have been implemented or whether alternate action to address the issues was taken. As well, the ANAO works closely with the various audit committees of public sector organisations to monitor the implementation of its recommendations.

However, one of the most effective catalysts is the JCPAA's quarterly public hearings on selected audit reports and any JCPAA inquiry conducted as a result of these reports. In selecting audit reports for review, the Committee considers the significance of the program or issues raised in the audit reports, the audit findings, whether recommendations have been accepted, and the public interest of the report.

VI Audits that have shaped public administration

As you might expect, some audits highlight particular issues with public administration that are program specific; others have a more pervasive influence. While our mandate properly does not provide for audits to comment on the merits of government policy, some audit reports have nevertheless been influential in changes to government policy.

The following four cases illustrate where the results of our audit work has helped to reshape and improve public administration.

Information technology (IT) outsourcing — a major re-think

The former government, in seeking long-term improvements in structuring and sourcing IT services across agencies, announced in 1997 a 'whole-of-government' approach to outsource some \$4 billion of IT services to the private sector.

This initiative was centrally driven by the then Office of Asset Sales and Information Technology Outsourcing (OASITO) through a series of tenders dealing with groupings of agencies (clusters) determined with only limited consultation and involvement of the agencies concerned.

The centralised approach taken by OASITO did not attract the unqualified support of agency heads because they [agency heads] did not have the degree of control necessary to best manage transition risks, and because they were ultimately responsible for the agency outputs and outcomes and the budgets involved.

The ANAO conducted a major audit⁷ into the 'IT outsourcing initiative' making several criticisms of the outsourcing process concerning the cost and timeliness of the program, the methodology used to calculate savings, the management of security and privacy issues, the management of the relationship with the strategic adviser, and the service delivery disruption. The report made some 20 recommendations.

In the light of the findings of the audit report and a subsequent inquiry by the JCPAA and the Senate Finance and Public Administration References Committee, the then Government commissioned a review of IT outsourcing by Richard Humphry AO (the then Managing Director, Australian Stock Exchange).

The Humphry public report was released on 12 January 2001 recommending that, because Chief Executive Officers (CEOs) of agencies had the statutory responsibility, they should be responsible for the outsourcing decisions. In particular, decisions that impacted upon the core business of the agency needed to be taken at agency level.

The Government agreed with the ten recommendations made by the Humphry Review, (some with qualification) including that responsibility for implementation of the IT outsourcing initiative be devolved to Commonwealth agencies in accordance with the culture of performance and accountability incorporated in the relevant financial management legislation.

The ANAO's audit, which prompted Parliamentary inquiries and the 'Humphry Review', contributed to a significant rethink for future IT outsourcing arrangements.

A cultural shift in specifying commercial confidentiality in government contracts

In 2001, ANAO completed a performance audit of the use of confidential provisions in contract with commercial providers. The ANAO worked cooperatively with several agencies to distil their experience into a sound framework for wider application across the Australian public/private sector interface. The ANAO reported several weaknesses in agencies' handling of confidentiality provisions in contracts, including:

- a lack of rigorous consideration during the development of contracts of which information should be confidential;
- the failure of the confidentiality provisions in contracts to specify which information in the contract is confidential; and
- uncertainty among officers working with contracts as to which information should properly be classified as confidential.

The ANAO developed criteria for use in determining whether contractual provisions should be treated as confidential. The audit also provided examples of what would and would not be considered confidential.

A report of the Senate Finance and Public Administration References Committee on Australian Government contracts strongly supported agencies' immediate use of the set of criteria developed by the ANAO for determining whether a sound basis exists for deeming information in contracts confidential.

In June 2001, the Senate made an Order that provided for Ministers to table letters of advice that all agencies, which they administered, had placed on the Internet lists of contracts of \$100,000 or more by the tenth day of the Spring and Autumn sittings of Parliament. The list was to indicate, among other things, whether the contracts contained any confidentiality provisions and a statement of the reasons for the confidentiality.

The Government subsequently agreed that agencies would comply with the spirit of the Senate Order. The then Department of Finance and Administration issued guidance on confidentiality, FMG 3, with the latest release being in July 2007.

The ANAO continues to audit compliance with the Senate Order and the appropriateness of the use of confidentiality provisions — our latest report was tabled on 27 September 2007 (Report No. 7, 2007-08). The Senate Standing Committee on Finance and Public Administration issued a second report on the operation of the Senate Order in February 2007 commenting that most agencies are complying with the reporting requirements and the number of confidentiality provisions has generally declined.

Improving legislative compliance

The ANAO has tabled a series of audits examining the Commonwealth's financial framework. Key audits in this series have been:

- Audit Report No.24 2003-04, *Agency Management of Special Accounts*;
- Audit Report No.15 2004-05, *Financial Management of Special Appropriations*;
- Audit Report No.22 2004-05, *Investment of Public Funds*; and
- Audit Report No.28 2005-06, *Management of Net Appropriation Agreements*.

Each of the financial framework audits revealed quite widespread shortcomings, particularly in relation to appropriations and compliance with the requirements of the financial framework.

Through its inquiries into each of the framework audits, the JCPAA has emphasised the importance the Parliament places on compliance with the legislation that establishes the financial framework.

As a positive response to the comments of the JCPAA and the matters raised by the ANAO audit reports, Finance has issued further guidance to agencies on these matters. In addition, Finance has introduced requirements for agency Chief Executives to provide an annual *Certificate of Compliance* with the legislative and policy elements of the financial management framework.

Further, in respect of future audit reports that consider financial framework issues, Finance has indicated it will write to relevant Chief Executives regarding their responsibilities under the financial framework to investigate compliance failings and suggesting that consideration be given to informing the responsible minister and/or Parliament of the results of that investigation.

My foreword to Audit Report No. 18 for 2007-08 (tabled on 20 December 2007) emphasised the fact that the ANAO has increased its emphasis on legislative compliance as part of its financial statements audits. I also commented that it is encouraging to note that the results of the 2006–07 audit coverage indicates that entities have increased their attention to complying with these requirements.

No doubt, the improved performance on legislative compliance was reinforced by the Government's introduction of the Chief Executive's annual *Certificate of Compliance* with specified elements of the financial management framework. Directors of CAC Act authorities and wholly owned companies in the General Government Sector are also required to provide a report on compliance with relevant aspects of CAC Act legislation.

Our observations of the outcome of the 2007-2007 Certificate returns showed that many of the breaches identified relate to requirements of the FMA or CAC Regulations and Orders rather than the requirements of the legislation itself – in broad terms in respect of the commitment, approval and spending of public money, the failure to document the reasons for non adherence to the Commonwealth Procurement guidelines and non adherence to time related requirements. We have also concluded that there may be scope for entities themselves to review their own procedures and business processes to identify opportunities to assist staff to comply.

The Acquisition of Defence Capability – signs of improvement, but some projects have a long tail

The ANAO has been reviewing and commenting on Defence's management of the acquisition of defence capability since the early 1980s. The ANAO's audit in 1983 was, for those times, ground breaking in as much as it focussed on the capital acquisition process and set out to identify systemic problems within that process. The report made the point that '*Sound project management practices are important on materiality, risk, and cost effectiveness grounds as well as for the proper maintenance of the defence capability*⁸ – these sentiments still resonate today.

Importantly, the Joint Committee of Public Accounts (now the Joint Committee of Public Accounts and Audit – JCPAA) picked up on the 1983 audit findings and conducted its own inquiry into Defence's management of its major capital equipment acquisitions.⁹

Our audit report and the JCPAA inquiry were influential factors in the reorganisation of the capability acquisition function into a single organisation within Defence – the forerunner to the current DMO. This was a significant initiative that has been continually refined over time.

Since then the ANAO and the JCPAA have had a continuing interest in improving the delivery of defence capability devoting considerable effort in examining major capital projects and the acquisition process itself.

The stimulus provided by the ANAO's reports and recommendations over the years as well as the JCPAA's enquiries, combined with Defence's own initiatives, have contributed to management improvements in the acquisition of defence capability. It is, however, still very much work-in-progress.

Similarly, the steps taken by Defence to give greater priority to financial management deserves recognition. The resultant improvements, evident in the reduction of the severity of the audit qualifications on the department's financial statements have taken a significant effort (and considerable resources) on the part of the department. Defence management has a strong desire to improve its standing in relation to financial management and systems, and is building on its successes in recent years.

The JCPAA's latest initiative involves the ANAO producing an annual report on progress in major capital equipment projects — the so called 'top 30 projects'. Modelled on a UK initiative, it will highlight the things that cause delays and the things that the DMO need to focus on. The Committee believes that this 'top 30' initiative will deliver significant benefits to Defence, the Parliament and the community.¹⁰

Other indicators of effectiveness

Recent audit reports continue to underline some key messages for managers.

- Measuring the effectiveness of government programs continues to be an issue. A report (Report No 21 of 2007-2008 *Regional Delivery Model for the Natural Heritage Trust and the National Action Plan for Salinity and Water Quality*) tabled earlier this month in the very challenging area of natural resource management and environmental programs, involving some \$2 billion of public funds, recognised evidence of activities occurring 'on the ground' but concluded it was not possible to report meaningfully on the extent to which outputs contribute to the outcomes sought by government. The report observed that the long lead times, absence of consistently validated data, the lack of agreement on performance indicators and any intermediate outcomes has significantly limited the quality of the reporting process.
- Significant programs can be well run. Our report on the progress of Centrelink's Refresh program to modernise Centrelink's IT systems (Report No 17 of 2007-2008 *Management of the IT Refresh Programme*) has largely been a good news story. The program management arrangements for Refresh have worked well to date. There has been both effective oversight and effective internal coordination and management of Refresh. Centrelink experienced difficulties with a number of projects and with the structure of some sub-programs in the early stages of Refresh. However, where necessary, Centrelink has halted failing projects and redirected resources to areas of highest priority.
- Contract management is an area commonly deserving attention due to risks to schedule, budget and capability. In some cases, managing these situations can be exacerbated due to the nature of the original contract, and

the extent of funds already advanced. This was a feature of a recent report concerning a major Defence acquisition (Report No 11 of 2007-2008 *Management of the FFG Capability Upgrade* – Department of Defence/Defence Materiel Organisation). The issues highlighted had similarities with the other acquisition projects the ANAO has reported on, reinforcing the importance of effective project management (including risk management) and contractual frameworks that encourage and require contractor performance.

- Grants administration continues to be a challenge for some agencies. Recent reports (Report No 14 of 2007-2008 *Regional Partnerships Programme* – Department of Transport and Regional Services, and Report No 39 of 2006-2007 *Distribution of Funding for Community Grant Programmes* – Department of Families, Community Services and Indigenous Affairs) have highlighted the importance of:
 - Ministers being properly informed of whether decisions they are taking are policy decisions or decisions approving the expenditure of public money under the Financial Management and Accountability Act
 - where it is Ministers that are making the funding decisions for individual projects, departments advising Ministers of the obligations placed on them by the financial framework together with the development of systems and procedures that enable Ministers to discharge these obligations
 - funding decisions being informed by rigorous assessments of whether proposed grants represent efficient and effective use of public money and, where reduced scrutiny has been undertaken, decision-makers being informed of any limitations and the reasons for this
 - Ministers and departments adhering to published guidelines which reflect the policy parameters for the program, with the scope for any departures being properly addressed in the published guidelines
 - departments following through faithfully on Ministerial decisions, particularly where funding has been approved subject to certain conditions being met
 - appropriately managing risks to the Commonwealth of non-performing projects
 - consideration being given to changes to the existing financial framework so as to require approvers of spending proposals to record the basis for their decision where this is not apparent from the existing documentation.

[The ANAO Better Practice Guide on Grants Administration is a good source of advice. In the light of recent experience we propose to update and reissue the guide at the end of 2008.]

Another measure of the effectiveness of performance audits is where there are close linkages between our work, agency responses, and decisions taken by Government in the budget context. Some examples where our audits have had an impact are:

- savings in the Budget in benefits payments due to improved control arrangements;
- additional funding for the Australian Taxation Office to improve the integrity of the Tax File Number, and thus taxation administration;
- additional funding for managing quarantine effectiveness;
- additional funding for certain security measures;
- additional funding for innovative approaches to assisting needy families in farming communities during periods of drought;
- funding for improved record-keeping in one of our larger agencies; and
- funding for better compliance with environmental legislation to protect threatened species.

VII Other ANAO products designed to improve public administration

In addition to our reports and our recommendations, we also provide guidance on better practice in public administration through our well regarded Better Practice Guides and, more recently, through our 'Audit Focus' newsletter.

Better Practice Guides (BPGs)

The ANAO produces Better Practice Guides to assist in promoting improved public sector management and accountability. Because of the ANAO's unique position we are able to compare operations across the public sector (and sometimes with the private sector) allowing us to add value to a wide range of stakeholders. This 'across-the-board' view is becoming more important as agencies increasingly develop individual approaches to deal with common issues, often a matter of virtually re-inventing the wheel. In some cases, agencies are employing the same consultants to provide the same, or similar, advice.

I have noted that BPGs are increasingly becoming important source documents for managers operating in an environment of devolved authority and responsibility. Indeed, they are of particular value to small agencies that find it difficult to develop and maintain in-house expertise on the wide range of public sector management issues, and which have tended to rely heavily on detailed legislative and policy frameworks and guidance from central agencies.

The program for BPGs is based on the ANAO's understanding of the emerging issues that are likely to impact on the performance of the public sector. BPGs may be produced in conjunction with a performance audit or, alternatively, a BPG might be prepared as a result of a perceived need to provide guidance material in a particular area of public administration. Importantly, BPGs add value by bringing together lessons learnt across the public sector. Our all time best sellers have been:

- *Developing and Managing Contracts: Getting the Right Outcome, Paying the Right Price* (February 2007 – developed in collaboration with the then Department of Finance and Administration); and

- *Implementation of Programme and Policy Initiatives: Making implementation matter* (October 2006 – developed in collaboration with the Department of Prime Minister and Cabinet).

And, our two most recent BPGs — *Public Sector Internal Audit: An investment in Assurance and Business Improvement* (September 2007), and *Fairness and Transparency in Purchasing Decisions: Probity in Australian Government Procurement* (August 2007) — are also receiving good feedback. Upcoming — we intend to update our BPG on the administration of grants in the light of the recent audit activity on grants administration.

AuditFocus

In addition to our BPGs, the ANAO recently commenced publishing the newsletter '*AuditFocus*' which is designed to distil key messages from recent audits for busy public sector executives. The latest edition focused on the Financial Management Framework — Senate Order on Contracts, Whole of Government governance arrangements and Grants Administration. These newsletters are also receiving good feedback from public sector managers.

VIII Complementary Review Activity

Managing program performance in the public sector has always been a challenge, because results are not measured in dollars alone, and it is difficult to secure agreement on how best to measure the effectiveness of government programs. In this context, it is a common approach for governments to express the range of programs delivered in the context of a generic framework. For the Australian Government, this has evolved into the current framework focusing on outcomes and outputs.

Public sector managers are expected to continually monitor the performance of programs. This model is intended to be self-regulating, with action being taken by managers to improve efficiency or effectiveness as required. It is critical that agencies take control of their own destiny within the framework of legislation and policy. Being aware of the performance of programs is fundamental to effective management, and sound advice to government. Evaluation, internal audit coverage and the work of the Cabinet Implementation Unit are all designed to contribute to better performing programs.

Program Evaluation

Program evaluation is seen as being complementary, if not integral, to program management. Evaluation aids in the assessment of program effectiveness, and may cover both policy and administrative aspects of a program.

Program evaluation can be a significant tool in systematically assessing the appropriateness, effectiveness and/or efficiency of a program. As such, it is of

considerable value both to agency managers, Ministers, external decision-makers and other stakeholders.

In our 2003-04 audit of annual performance reporting by agencies, the ANAO found that most agencies undertook a range of evaluations.¹¹ However, we found that the results of these evaluations were frequently not discussed in agencies' annual reports. Therefore, evaluations were not being used to support performance reporting in the annual report by providing information on quality and effectiveness that was otherwise not available.

The ANAO (in collaboration with Finance) produced a Better Practice Guide on annual reporting to assist agencies to better develop their annual reporting performance information frameworks and analysis.¹² In my experience, organisations that have reliable performance information for both external requirements and internal management have achieved good performance reporting through strategies such as: establishing a robust performance culture based on public sector values; maintaining strong links between reporting, planning and management; and ensuring strong links between external and internal reporting.

The budget processes have always encouraged evaluation activity, although the profile given to evaluation has varied over the years.

A range of Government programs are funded for a specified period to ensure that, after an appropriate period of operation, an assessment can be made as to whether a program is meeting its stated objectives and is still appropriate. There has been a requirement to review terminating programs (those with a defined end date) and lapsing programs (where the government's commitment is expected to continue but the Government has not provided on-going funding).

Lapsing programs are subject to review before the Government will agree to extend the funding. It is worth noting that lapsing programs do not usually include those based on legislated entitlements such as age pensions and unemployment benefits.

Under current arrangements, the review of lapsing programs takes one of two forms: a major review where a program involves significant expenditure and/or the merits of its continuation needs to be assessed against government priorities; or a departmental report where the aim is to assess how effectively a program is achieving its objectives.

Major reviews are undertaken in consultation with central agencies and the results are considered by the Expenditure Review Committee of Cabinet (ERC). A departmental review is conducted internally but with consultation with Finance to agree the scope of the report and the nature of Finance involvement. The resulting report (prepared in consultation with Finance) assesses the effectiveness of the program and is considered by the ERC.

While it is not common for a program to be cancelled following a review, the review of lapsing programs plays a role in providing a systematic process for

regular reviews of government programs as well as imposing a standardised approach and terms of reference thus providing a measure of consistency across program reviews.

The signs are positive for a stronger role being given to evaluation going forward in view of the new government taking a fresh look at programs, and the increased emphasis being given to transparency in decision making. We will need to see how this develops, but the benefit of evaluation is that it allows for the assessment of both the policy merits and the performance of a program.

Evaluations also assist the ANAO in its work planning and performance audit coverage. In some cases, if an evaluation is being conducted, we may decide to devote our resources to other areas rather than duplicate review activity. And of course, where available, we will draw on evaluation reports undertaken by agencies.

Internal Audit

The other complementary review activity is internal audit, which the ANAO recognises as a key component of any organisation's governance framework. Internal audit plays a critical role in providing assurance regarding the conformance and performance of an organisation's systems and administrative processes. Moreover, it is generally recognised as better practice to have a competent and adequately resourced internal audit group to support the statutory role of the audit committee within Australian Government organisations.

The role of internal audit has evolved to being a strategic partner with an organisation's executive management. Internal auditors can expect to be responsible for many, broad and varied tasks, ranging from assessing the quality, economy and efficiency of business activities and controls, to advising on opportunities to harness emerging technologies and improved business practices, including advice on the design and application of risk management practices. Internal auditors may also be expected to play a key role in promoting, educating and coaching an organisation's staff in key principles, procedures and controls.

Internal audit typically operates as a discrete organisational unit with no direct involvement in day-to-day operations or decision making. This structure helps to create a degree of independence from the processes and systems, which the group exists to appraise.

Our performance audit *Management of Internal Audit in Commonwealth Organisations*¹³ assessed whether selected Australian Government organisations had utilised better practice principles when establishing the role, and managing the use, of their internal audit groups.

The audit concluded that each of the audited organisations had established an internal audit group, with responsibilities and accountabilities that were largely consistent with better practice guidance and professional

requirements, as well as the legislative requirements of Commonwealth audit committees.

Nevertheless, the ANAO made eight recommendations for further improvement of the internal audit function aimed at improving the transparency, accountability and efficiency of the internal audit function. The audit recommendations called for better documentation of the roles and responsibilities of governance committees, the maintenance of adequate documentation, the provision of guidance material for internal audit staff, and the implementation of performance measures to assist with the of evaluation of the internal function and its audit products.

Following that audit the ANAO developed and published a Better Practice Guide — *Public Sector Internal Audit: An Investment in Assurance and Business Improvement*. This is one of our 'better sellers' and is intended as a reference document for Chief Executives, Boards, members of Audit Committees, managers with responsibility for internal audit activities, and internal audit staff generally.

The Guide provides guidance for public sector entities and to encourage the use of better practice principles. The Guide outlined 15 key characteristics of a better practice internal audit function. It details the roles and responsibilities of internal audit activities, including the purpose of internal audit, the need for internal audit independence, the system of accountability in reporting lines, as well as the professional standards and frameworks needed for an effective and accountable internal audit practice.

The Guide also provides guidance on better practice audit planning, on establishing and maintaining the confidence and trust of key stakeholders, and for developing efficient and effective work practices. As an aid, it contains a Model Internal Audit Charter against which Heads of Internal Audit are encouraged to review their own charter.

The ANAO has regard to the work of internal audit in much the same way as it does for evaluation, and it is in our interests (as well as those of the agency) to have a strongly performing internal audit function.

The Cabinet Implementation Unit

The Cabinet Implementation Unit was established in late 2003 to make the delivery of Australian Government policy decisions a priority for the Australian Public Service.

In practice, this means the Unit promotes early and effective planning for policy delivery, and follows up to see that decisions are being carried out on time, on budget and to Government expectations. It does this in three ways:

- First, the Unit seeks to ensure that policy prepared for consideration by the Prime Minister and Cabinet has clear goals, a robust assessment of costs and benefits, and clarity about how it will be implemented.

- Second, the Unit works with departments and agencies to improve implementation planning and the delivery of policy initiatives. This includes helping agencies prepare implementation plans and identify, assess and manage implementation risks.
- Third, the Unit monitors the progress of the implementation of key Government decisions and reports to the Prime Minister and Cabinet on the status of progress in relation to these decisions.

Documenting and sharing these lessons will assist in developing better public sector implementation practices. The Unit complements existing review activity, including that by the ANAO (which remains independent). As I have already mentioned, the ANAO and the CIU have collaborated in producing a Better Practice Guide on the implementation of program and policy initiatives.

IX Concluding Remarks

One of the foundation stones for good government is good public administration. And good public administration doesn't come about by chance. It requires vision, coordination and effective delivery on the part of all agencies. This requires:

- The Australian Public Service to have appropriate administrative arrangements in place to provide the right incentives to agencies to be highly performing within the framework of legislation and government policy;
- effective agency leadership and governance; and
- program managers developing and pursuing clear strategies to achieve outcomes but, just as importantly, having measurement systems to be able to gauge success, and report performance.

The Australian model of public sector administration is well regarded internationally and we should be pleased with this. But our audit work shows that, when it comes to implementation of programs, there is room for improvement, and in some cases, marked improvement.

The ANAO has an important role to play in informing the Parliament, Ministers and the public of the state of public administration through our reports. We seek to leverage from the work we do to promote improvements in public administration.

I am conscious that stimulation by the ANAO is not always instant gratification for agencies – sometimes it takes time. But, as illustrated by the earlier case studies, the combination of ANAO reports and agency responses does lead to positive changes in program management and performance.

In addition, the contributions of evaluation, internal audit and the Cabinet Implementation Unit all encourage better performing programs.

Notes:

- 1 Mc Phee, Ian, *Evaluation and Performance Audit: Close cousins or distant relatives?* Canberra Evaluation Forum, 16 February 2006
- 2 As cited in the Public Service Commission's publication *Performance Management in the APS: A strategic framework*. Found at www.apsc.gov.au/publications
- 3 Wanna, John , Ryan Christine & Ng Chew, 2001, *From Accounting to Accountability: A Centenary History of the Australian National Audit Office*, Allen & Unwin
- 4 Verspaandonk, Rose, Research Paper 5, 2001-02, *Shaping Relations Between Government and Citizens: Future Directions in Public Administration*, Parliamentary Library, Politics and Public Administration Group, 31 October 2001
- 5 The Australian Government's Consolidated Financial Statements for the year ended 30 June 2007 discloses total consolidated income of \$302.646 billion
- 6 The Auditor-General Annual Report 2006-2007, p.22
- 7 ANAO Audit Report No. 9 2000-2001, *Implementation of Whole of Government Information Technology and Infrastructure Consolidation and Outsourcing Initiative*.
- 8 'Report of the Auditor-General upon audits, examinations and inspections under the Audit and other Acts', September 1983 (page 27)
- 9 Joint Committee of Public Accounts, Report 243, *Review of Defence Project Management*, Volumes 1 & 2, 10 February 1986
- 10 Media release issued by the JCPAA on 6 December 2006
- 11 ANAO , Audit Report No. 11 2003-04, *Annual Performance Reporting*, November 2003
- 12 ANAO and the then Department of Finance and Administration, 2004, Better Practice Guide, *Better Practice in Annual Reporting*, 8 April, prepared in response to a recommendation of the JCPAA in Report No 388, June 2002
- 13 ANAO Audit Report No 3 2004-2005, *Management of Internal Audit in Commonwealth Organisations*. 23 July 2004