

Leadership Development Network
Breakfast Seminar

**The ANAO's leadership initiatives in
improving public administration**

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*With thanks to Ron Richards
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Introduction

I am pleased to be invited to address your Leadership Development Network breakfast seminar this morning. Leaders and leadership is a topic that always draws a healthy debate — we generally know a leader when we see one but it is more difficult to describe all the elements that go to make a leader. However, even when the elements are described, it is difficult for most of us to keep them in view. One example is the following eleven principles of leadership developed for the US Army:

- ✚ Know yourself and seek self-improvement;
- ✚ Be technically proficient;
- ✚ Seek responsibility and take responsibility for your actions;
- ✚ Make sound and timely decisions;
- ✚ Set the example;
- ✚ Know your people and look out for their well-being;
- ✚ Keep your workers informed;
- ✚ Develop a sense of responsibility in your workers;
- ✚ Ensure that tasks are understood, supervised, and accomplished;
- ✚ Train as a team; and
- ✚ Use the full capabilities of your organization.¹

But when all is said and done, it seems to me that we all need an approach to leadership that suits our style, personality and environment, although there will always be some common elements to leadership.

There was a movie that came out around 2000 called *'High Fidelity'* about Rob Gordon (played by John Cusack) a thirty-something record-store owner — it followed his 'mid-life' crisis and his relationships over the years. He always classified songs, relationships, break-ups, or events into a 'top 5' listing. It was a pretty straightforward view of the world but got to the most important elements for him. Now there is a lot to be said for an approach that is straightforward and memorable but more of that later.

I would also like to capture some of the key messages arising from the work of the ANAO on what contributes to successful management.

When I was appointed Auditor-General, two factors heavily influenced my perspective on the role of the ANAO — one is the confidence and reliance that Members of Parliament have on the work of the ANAO to provide assurance about the state of public administration; and the second is the desire, on the part of agencies, that we bring our experience 'to the table' in our audits of their operations.

The importance of the audit function to the Parliament and the Executive has long been recognised. In fact, from the earliest days of Federation the creation of a reliable public audit function was seen as necessary to ensure accountability for the public purse with the *Audit Act 1901* being the fourth piece of legislation passed by the Parliament, coming into effect on 1 January 1902. The Audit Bill was introduced into the House of

Representatives on 5 July 1901 by the Treasurer, Sir George Turner, and was described as 'one of the many machinery bills' the legislature needed to enact 'in order that the work of the Government may be properly carried on'.² The desire was to establish a uniform system of dealing with Commonwealth accounts and also ensuring financial propriety and due process.

In these early days there was an emphasis on disbursements 'in order to prevent frauds and defalcations'.³ Today, the Auditor-General's role has expanded to providing an independent review of the performance and accountability of the Commonwealth public sector in its use of public resources — the performance audit responsibilities being added by statute in 1979.

Not only has the audit mandate changed, but so has public administration and the nature of society. It was interesting to observe that participants at an OECD symposium on shaping the government of the future identified a range of challenges for governments in the decades ahead:

- ✚ A decline in trust in government;
- ✚ A better educated and more knowledge public;
- ✚ Increasingly diverse and fragmented societies;
- ✚ Greater authority given to supra-national and sub-national bodies;
- ✚ Changing patters of employment and lifestyle. ⁴

We all have a role in responding to the changing environment and ensuring confidence in public administration. The roles of public sector agencies and the ANAO may be different and follow different paths but contributing to a better public sector in the years ahead is common ground.

As Auditor-General, my primary role is to report to the Parliament on the performance of public sector agencies. In fulfilling this role, the ANAO undertakes a program of performance audits and financial statement audits and it is through these two audit products that we aim to foster improvement in public administration and provide an independent assurance of public sector financial reporting, administration, control and accountability.

From this perspective, the effectiveness of the Office of Auditor-General is based on two fundamental factors — the special relationship between the Auditor-General and Parliament and my independence provided for under the *Auditor-General Act 1997*. This allows for the Auditor-General to provide independent assurance to the Parliament, the Government and the public generally on the financial statements, financial administration and accountability of Australian Government public sector entities.

Performance audits

Under the current output-outcomes model adopted in the Australian Public Service, managers are expected to monitor the performance of programs continually. The model is intended to be self-regulating, with action being taken by managers to improve efficiency or effectiveness as required.

The ANAO's performance audits are conducted to provide an independent review of the efficiency and administrative effectiveness of a program (or agency) but the scope of our reviews do not extend to assessing the policy merit of a program — it is Ministers not public servants who take responsibility for policy and it is for this reason that performance audits are restricted to the efficiency, effectiveness and propriety with which policy is implemented. Performance audits are not extended to cover the merits of the policy itself however this is sometimes a grey area and there can be, at times, a perception of an audit commenting on policy, particularly where the implementation performance reflects a problem with the policy itself rather than with its delivery.

Thus, performance auditing has its roots in the requirement for independent analyses of the economy, efficiency, and effectiveness of government programs and organisations and trying to answer two basic questions: Are things being done in the right way? Are the right things being done? In other words:

- ✚ Do the inputs represent the most economical use of public funds?
- ✚ Are we getting the best services from available resources?
- ✚ Are the aims of the policy being fully met, and are the impacts the result of the policy?

As mentioned earlier, the audit role has been adapted over the years — the acquisition of audit powers and the focus on public sector performance has given the ANAO a wider canvass and a better platform to provide a stimulus for better public administration.

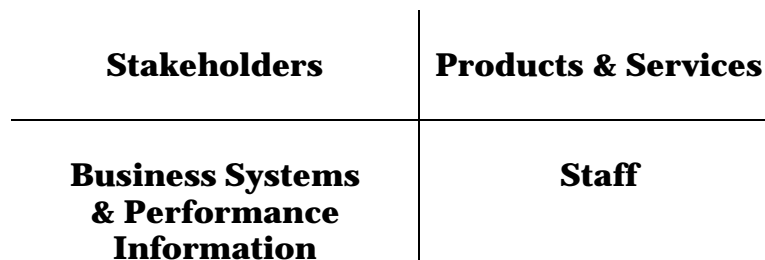
It hasn't only been about the statutory changes though to give the ANAO performance audit responsibilities. Importantly, it has involved a 're-think' on the part of the ANAO of who are our stakeholders. Traditionally the ANAO viewed the Parliament as its only client. Today we view Parliament as our primary client but we also view agencies as clients to recognise we wish to assist their own performance as well as meet our statutory responsibilities.

With this expanded view of our stakeholders our performance audit reports are designed to assist Government agencies to improve their performance as well as informing the Government and Parliament and assisting the Parliament in holding the Executive Government to account. Therefore, in choosing our performance audits we have regard to risk, materiality, portfolio coverage, and requests or suggestions made by the JCPAA, other Parliamentary Committees, Ministers, Members of Parliament and entities. Our audits cover a wide range of topics, including issues such as:

- # major Defence procurements;
- # taxation administration;
- # integrity of electronic records;
- # green procurement by government departments;
- # administration of selected government programs;
- # administration of grants;
- # compliance with the financial management framework;
- # public sector governance;
- # risk management;
- # project or contract management;
- # performance reporting;
- # implementation of Job Network Employment Services Contract; and
- # IT security.

At times these audits are designed to provide an analysis of performance across the public sector. They are conducted on agencies where there are shared objectives, shared service delivery or, simply, a sharing of common issues. This approach is also becoming more important with the greater use of a 'whole-of-government' approach to public administration.

I am a great believer in the balanced score card approach to considering issues. My management model is, first, being clear on the objectives of the organisation / mission or project, and then applying a fairly standard 'four quadrant' balanced score card approach to consideration of the issues. This approach is encapsulated in the following diagram:



This is my 'top 5'.

But it is important to keep in mind this is only a management framework, and consistent delivery of expected (or better than expected) results requires more than a sound framework. It requires the application of sound management practices. Our audit work highlights the criticality of appropriate:

- # governance arrangements;
- # risk management;
- # key controls, which guide performance within acceptable limits;
- # performance information and other feedback to provide the basis for a self-regulating management model; and
- # active management of the process.

Another ‘Top 5’.

In this context, in exploring the causes for corporate failures, a recent publication by the International Federation of Accountants (IFAC) found that of four key corporate governance issues under-pinning both success and failure — three relate to leadership. The four factors were:

- ✚ culture and tone at the top;
- ✚ the chief executive;
- ✚ the board of directors;
- ✚ internal controls.

The study found the four key corporate governance factors, cited above, were interrelated — with no single issue dominating. The key governance issues that contributed to the corporate failures of some of the largest corporate collapses are shown in the following table, taken from the report.

Table 1 – What went wrong? — corporate governance issues

	Ethics/culture tone at the top	CEO	Board of directors	Internal control / compliance / Risk mgt	Aggressive earnings management
Ahold (Netherlands)	**	***	*	***	***
Enron (USA)	***	***	***	***	***
World Com (USA)	***	***	***	***	***
Xerox (USA)	***	***		***	***
Vivendi (France)		***	**	***	
Cable & Wireless (UK)		**	***	***	
D Tripovich (Italy)			***	**	
France Telecom (Fra)	**	**	**	**	
Source: Enterprise Governance Case Studies – CIMA & IFAC ⁵		*	= Issue had relatively minor significance in the case study		
		**	= Issue was of moderate significance		
		***	= Issue was of major significance		

Improving public administration through sound audit recommendations

The performance audits undertaken by the ANAO are intended to stimulate improved public administration. The ANAO produces in the order of 55 performance audit reports a year. In addition to reporting on any unsatisfactory matters found during a performance audit, it is important for us to suggest improvements to public administration as well — our particular emphases are on necessary remedial action, better practice and achievement of required results, while reflecting public service values and ethics.

At times auditors have often been accused of not fully appreciating the ‘*man in arena*’, encapsulated in that famous speech by President Theodore Roosevelt — *Citizenship in a Republic* — he gave at the Sorbonne, Paris, April 23, 1910.⁶ The ANAO does appreciate the difficulties of managing in an increasingly complex and demanding public sector environment, including the greater levels of scrutiny. We endeavour to capture, in a balanced way, the appropriate context and significant issues that bear on the administration of a program or an entity.

An important focus in the conduct of all performance audits is the identification of better practice and the provision of recommendations aimed at improving efficiency and administrative effectiveness, that is, the ANAO frames its recommendations to assist agencies in achieving better outputs and outcomes and promoting improved performance. To be effective this requires agreement with, and commitment by, agencies to implement those recommendations within a reasonable time period. Clearly, in order for the ANAO to add value and be seen as an agent of change to improve public sector administration, it is important that we work co-operatively with agencies to gain genuine acceptance of our recommendations.

Our preferred approach is to encourage agencies to take any necessary remedial action on identified matters during the course of an audit by acknowledging, and reinforcing, timely implementation of initiatives developed by them and/or suggested by the ANAO. Senior ANAO officers endeavour to meet formally and informally with agency senior management throughout the year to discuss audit related issues and strategic directions. In particular, the ANAO promotes an agency's interest and involvement at the start of each audit and in planning processes to facilitate progress and completion of the audit as well as commitment to its findings and recommendations.

While the ANAO endeavours to construct recommendations that will be accepted by agencies, occasions do arise where a difference of opinion is held. In such situations, we report both positions to the Parliament. Nevertheless, our effectiveness is largely related to the extent to which our recommendations are accepted and fully implemented. In this respect, we are also attentive to any statements by individual chief executives or Ministers about action being taken by portfolio agencies on performance audit and other audit recommendations. Since 1 July 2003, following a

recommendation by the JCPAA ⁴, full agency comments on a proposed report have been published in the final report. As well, a summary of agency comments is included in the brochure accompanying each performance audit report.

The impact of our recommendations is assessed through the conduct of follow-up audits which determine whether they have been implemented or whether alternate action to address the issues was taken. As touched on above, the impact can also be assessed through a series of audits on a common theme or program activity. As well, the ANAO works closely with the various audit committees of public sector organisations to monitor the implementation of its recommendations. However, the most effective action 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; arguments advanced by the audited agencies, and the public interest of the report.

In some cases, there is close linkage between our work, agency responses, and decisions taken by Government in the budget context. For example, our audits have had an impact on:

- ✚ 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; and
- ✚ funding for improved record-keeping in one of our larger agencies.

Providing guidance on better practice

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, speaking at events such as this and, more recently, through our '*Audit Focus*' newsletter.

[Better Practice Guides \(BPGs\)](#)

In promoting improved public sector management and accountability the ANAO produces a series of Better Practice Guides to bring together our experience, including industry experience, on a range of topics such as public sector governance, audit

committees, contract management, developing policy advice, and administration of grants. To highlight just one, the BPG on Public Sector Audit Committees deals with an issue that I single out as a significant positive reform in public sector administration, especially the injection of independent members (outside the public service), often with an independent chair. The ANAO has an audit committee with two independent members including an independent chair.

The ANAO is in a unique position to compare operations across the public sector, and sometimes with the private sector, allowing it to add value to a wide range of stakeholders. This is 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 were employing the same consultants to provide the same, or similar, advice.

The program for BPGs is based on the ANAO's understanding of the emerging issues impacting 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. The development of BPGs may involve examining practices in the public and private sectors, in Australia or overseas. Importantly, BPGs add value by bringing together lessons learnt across the public sector.

BPGs have increasingly become important source documents for managers operating in an environment of devolved authority and responsibility. 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 ANAO has worked with other agencies in the production of some BPGs, examples include the guides developed on Goods and Service Tax (GST) Administration, compiled with the Australian Taxation Office,⁷ and on annual performance reporting prepared in association with the Department of Finance and Administration.⁸

Feedback indicates that these guides are useful and well accepted not only in the public sector, where program managers are looking to learn from the experiences of others, but there is a deal of interest from the private sector as well.

[Other initiatives](#)

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. We also play our part by participating in seminars and conferences to promulgate better practice and lessons learnt to a wider audience. We also provide our perspective on developments in accounting standards, particularly by commenting on exposure drafts issued by the standard setting boards and through our involvement in Australasian Council of Auditors-General (ACAG).

Conclusion

Let me draw the threads together. In order to meet the expectations of the Parliament and, more broadly, the Australian public, the ANAO is continually reviewing its approach to ensure that our audit coverage provides an effective and independent review of the performance and accountability of Australian Government public sector entities. We seek to ensure that our performance and financial statement audits are well targeted and maximise the Office's contribution to improved public administration. In this context we have taken steps to ensure our audits address priority areas which impact on program performance.

The ANAO accepts it has a leadership role to play in assisting the public sector to improve its performance as well as informing the Government and Parliament on its audit coverage.

A theme running through my presentation this morning is that we all need an approach to management/leadership that suits our style, personality and environment; however, there are some common elements that assist us to be better managers and leaders. We can learn from our own experience, and that of others, to improve public administration in the public interest.

Notes:

- 1 Found at <http://www.nwlink.com/~donclark/leader/leadcon.html#two>
- 2 Wanna, John, Ryan, Christine & Chew Ng, 2001, *From Accounting to Accountability*, Allen & Unwin, p 6
- 3 Hansard 19 June 1901:1248 as reported in Wanna, John, Ryan, Christine & Chew Ng, 2001, *From Accounting to Accountability*, *Op cit*, pp 6-7
- 4 Focus, Public Sector Newsletter, Sept-Nov 1999, *Shaping the government of the future*, Number 14, p 1
- 5 International Federation of Accountants, *Enterprise Governance : Getting the Balance Right*, p.14, found at www.ifac.org/MediaCentre/files/enterprisegovernance.pdf
- 6 The relevant part of the speech is:
"It is not the critic who counts: not the man who points out how the strong man stumbles or where the doer of deeds could have done better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood, who strives valiantly, who errs and comes up short again and again, because there is no effort without error or shortcoming, but who knows the great enthusiasms, the great devotions, who spends himself for a worthy cause; who, at the best, knows, in the end, the triumph of high achievement, and who, at the worst, if he fails, at least he fails while daring greatly, so that his place shall never be with those cold and timid souls who knew neither victory nor defeat."
- 7 ANAO 2003, *Goods and Services Tax (GST) Administration*, Better Practice Guide, Canberra, May.
- 8 ANAO 2004, *Annual Performance Reporting*, Better Practice Guide, Canberra, April.