



**CHARTERED SECRETARIES
AUSTRALIA**

Leaders in governance

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Assistant Secretary
Commonwealth Financial Accountability Review
Department of Finance and Regulation
John Gorton Building
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Parkes ACT 2600

By email: cfar@finance.gov.au

Dear Assistant Secretary

***Sharpening the focus: a framework for improving
Commonwealth performance — position paper***

Chartered Secretaries Australia (CSA) is the peak body for over 7,000 governance and risk professionals. It is the leading independent authority on best practice in board and organisational governance and risk management. Our accredited and internationally recognised education and training offerings are focused on giving governance and risk practitioners the skills they need to improve their organisations' performance.

Our Members are all involved in governance, corporate administration, legal practice and compliance within their organisations, with their primary responsibility being the development and implementation of governance frameworks in a variety of organisations, including public listed and public unlisted companies, private companies, public sector agencies and not-for-profit organisations.

CSA welcomes the opportunity to comment on the *Sharpening the focus: a framework for improving Commonwealth performance — position paper* (the position paper) and draws upon the experience of our Members in formulating our submission.

General comments

CSA strongly supports the reform to the Commonwealth financial framework to modernise it into a simple, value-adding, and easy-to-use mechanism for all aspects of government operations.

CSA believes that these goals can be met through adhering to the key principles underpinning the position paper, namely:

- government should operate as a coherent whole
- public money is public money, irrespective of whose hands it is in
- performance of the public sector is more than financial, and
- engaging with risk is a necessary step in improving performance.

CSA believes that the principles and proposals put forward could be translated into a clearly defined system for professional directorship of the public sector which 'joins the dots' on the principles outlined in the position paper. For example a basic 'plan-do-check-act' type system might comprise the following:

- assigning responsibilities — through amalgamated legislation, which enables connected portfolio arrangements and joined-up whole-of-sector responsibilities -to design a high-performing public sector which is more than just the sum of agency directions and performance
- setting direction through outcomes-focused planning which analyses current and desired community well-being using indices such as the Organisation for Economic Co-operation and Development (OECD) 'Better Life Index' and then ranks the public value (benefit-cost ratio) of all key services and programs by their contribution to well-being for optimal resource allocation
- developing performance-based budgets based on structured evaluations of appropriateness, effectiveness and efficiency. For example, a service or program budget which can demonstrate costs are objectively related to:
 - core needs, including critical well-being indicators (appropriateness)
 - getting things right the first time, every time (effectiveness), and
 - ensuring the most economical combination of people, processes, technologies, knowledge and information, including lowest lifecycle assets costs (efficiency)
- conducting agency capability/risk assessments and reports that determine the degree of earned autonomy of agencies, which then leads to a risk-based approach to the monitoring of agencies. This includes the integrated use of internal audit assurance across the sector on key risks that exist across the public sector more broadly.

CSA believes that professional directorship within the public sector plays an important role in such a system, with director-type skills involved in integrating planning, budgeting, people risk, assurance and financial management. CSA notes that the aim is to align outcomes and challenges with the appropriate level of capability, accountability and resources, commensurate with risk-taking preferences. This outcome is not possible unless there is a focus on system effectiveness.

In our previous submission on the first discussion paper, *Is less more? Towards better Commonwealth performance* (the discussion paper), CSA outlined these concepts in further detail and set out three broad recommendations for improving the financial and performance framework for Commonwealth entities, namely:

- adopting a principles-based approach to governance in the public sector
- introducing professionalism and directorship into public sector oversight and strategic planning, and
- creating public value to drive better performance across the whole of government.

CSA is pleased to see that these concepts have largely been incorporated into the refined propositions set out in the position paper.

The examples highlighted in the position paper, including the Australian Securities Exchange (ASX) Corporate Governance Council's *Corporate Governance Principles and Recommendations* (Principles and Recommendations), and the New South Wales Audit Office's *Governance Lighthouse*, which adapts the ASX Corporate Governance Council's Principles and Recommendations, offer good foundations for governance practice against which reporting and actions take place, whether it be in the private or public sector.

CSA acknowledges, however, that while the proposals have provided a clearer direction for financial accountability reform, it will be the details of such reform, such as the exposure draft which sets out the governance principles, which will provide the sector with the most important information about the reform's intentions. CSA notes that often it is the 'devil is in the detail' that most matters, and it is hard to provide feedback on the position paper without knowing the details of how reform will be implemented.

In light of this, CSA seeks only to make comment on specific proposals within the position paper where CSA believes that the narrative and understanding of the proposals can be strengthened in line with CSA's comments about principles-based governance, directorship and professionalism, and public value creation.

Government as a whole

CSA is in accord with the premise that 'government' should not be viewed as a group of individual entities working in isolation but as a coherent whole operating in the interests of the public. However, in order to achieve this target, CSA believes that the concepts of professionalism and directorship must be incorporated into the model for improving operational performance.

A whole-of-government approach can only thrive if there is an overall plan, within which each portfolio is expected to operate, linking to an overarching plan for the whole of government. While the overarching plan might be the sum of the collective aspirations of the government of the day, nevertheless whole-of-government thought will lead to better judgments being made about the performance of the public sector in the achievement of strategic goals for the community.

Directorship and professionalism in the public sector can benefit the whole-of-government approach because it encourages better implementation, performance management and evaluation.

CSA points to our comments in our previous submission on the discussion paper concerning introducing professionalism and director-type skills into the manner in which the public sector operates. In that submission we commented that:

CSA believes that the introduction of professionalism and directorship will provide oversight, insight, and foresight into public sector performance, risks and management, while allowing the agency the autonomy to manage and perform. CSA notes from the outset that various proposals within the discussion paper call for variations of oversight bodies, for example departmental boards. CSA reiterates that the form of the oversight is not as important as ensuring that the review aims to implement both professionalism and directorship into the public sector. CSA notes that other models, including two-tiered boards and individual entity boards, can similarly be successful within the public sector, provided that there is professional oversight of the operations. The right governance framework, similarly, offers those charged with leading the public sector agencies and departments with the tools to better manage the sector...

...Professional directorship should not be confused with centralised decision making, and CSA notes that the concept of professional directorship is to provide advice and assurance to the government in areas such as strategy, performance, productivity, management capability, delegations, information integrity, innovation, risk and audit.

Professional directors will be required to look at the systems for managing the organisation and managing all parts of the organisation to improve performance while also prudently assessing risks. The roles and responsibilities of directors in listed companies in countries who are members of the OECD, for example, provide the following list of governance standards and tasks, including:

- approval of strategies and budgets
- decisions about executive capability remuneration and performance management
- delegations
- organisational performance monitoring

- strategic risk and mitigation assessment
- ensuring the integrity of financial and other information, and
- oversight of auditing processes.

CSA recognises that the idea is not to overhaul public sector entities by imposing the requirements of listed companies on them, or to import a style of oversight which is incompatible with the current system. Instead, CSA emphasises the importance of professionalism and directorship in changing the culture of the public sector and providing strategic guidance, thereby assisting in the process of improving performance.

CSA notes that the concept of directorship, while not mentioned in the position paper, is alluded to in the proposal to better articulate the role of departmental secretaries, and in some instances create portfolio boards to advise ministers on the performance of portfolio bodies. By asking either departmental secretaries or portfolio boards to take a broader operational approach, CSA believes that this mirrors the role of a professional board in a listed company, which is independent of management and charged with asking questions about the company's performance in creating shareholder value.

The departmental secretary or portfolio board, similarly, may be charged with asking questions of the portfolio, including:

- about the performance of the agencies within the portfolio, for example whether they are high performing, or achieving average performance, and against what criteria these judgments have been made
- which services and programs are adding the most public value and which are providing the least value — has the funding and appropriation of funds for the organisation been aligned with the target of maximising public value?
- what the level of overall professionalism of the various agencies within the portfolio is benchmarked against — is the professionalism of the agency benchmarked against the relevant governance and professional standards?
- whether the agencies within the portfolio are sufficiently collaborative and networked with integrated governance arrangements
- whether the rate of change in public sector capability and the attraction of talent is sufficient to create better public sector entities
- what the quality of agency/portfolio decision-making processes has been and the extent to which decisions are business focused
- what level of risk-taking and innovation is required to achieve objectives and what mitigation strategies exist to assess the effectiveness of risk taking
- whether the integrity of individual agency information and the quality of information systems are able to provide complete, concise, accurate, reliable and timely information to support decision making and review
- what level of professionalism exists in audit committees, internal audit and program evaluation.

In being charged with these responsibilities, however, CSA is concerned by the suggestion in the position paper that departmental secretaries and directors may also be held to account. CSA notes two caveats on imposing this responsibility, namely:

- that department secretaries and directors will not be responsible for the funding of programs, as this a responsibility of parliament, and
- Ministers or Cabinet may issue Ministerial Directions, whereby the department secretary or director is 'directed by a Minister' and is unable to control or exert any power over the decision which has been made.

These caveats should be factored into any system which proposes oversight by departmental secretaries and directors, alongside other proper protections for those exercising these roles. CSA recognises that it is ultimately the Minister and parliament that makes decisions on funding, legislation and/or policy.

CSA also notes that professionalism in this context is paramount, and departmental secretaries or directors will be required to exercise independent judgment and strategic thinking to ensure that the portfolio is improving its performance. The emphasis will also be on ensuring that the responsibilities of departmental secretaries and directors on any board portfolio are clearly delineated.

Accountable performance

A well-designed performance and accountability framework must, from a whole-of-government perspective, recognise that evaluating the performance of the public sector is more than simply measuring the sum of the performance of individual agencies and portfolios. Accountable performance must evaluate systematic performance across the sector.

While CSA recognises the importance of strategic and policy goals through employing models such as the resource management cycle, we note that accountable performance should look more closely at the process of value creation for the public. Whereas within the corporate world performance is evaluated against the measure of shareholder value, the public sector does not utilise an equivalent 'value' scale.

CSA supports the proposition that evaluation should be more systematic and better linked to the budget process; however, we would highlight the importance of evaluation being undertaken in relation to identified efficiency and effectiveness targets related to the creation of public value. The evaluation process should be linked to longer term planning and thinking. CSA believes that this how the government can improve the wellbeing of its constituents with a longer term focus.

Again, CSA notes that without the details of such a performance evaluation matrix, it is difficult to provide feedback.

Access to information

CSA specifically highlights the importance of access to information as a key area in which public sector reporting can be enhanced. While government reporting has generally become complex and difficult for many to find and interpret, CSA notes that the provision of performance data is useful for both public and private sectors to engage with, and should be made publicly available.

CSA strongly recommends that, as a general rule, governments be encouraged to make more information about performance data available for public consumption.

Engaging with risk

CSA supports the proposals to broaden the concept of risk by engaging with risk at different levels within the public sector, and developing an overarching framework for Commonwealth public sector entities to better understand risk management practices.

However, CSA believes that developing a positive risk culture also requires engagement with risk at the strategic level. In our previous submission we noted that:

... risk in the public sector is conceived of differently from that of the private sector, in that risk materialises usually in relation to market failure, rather than in the pursuit of profit or other stakeholder benefit. However, there is a disposition at present to consider risk only at the operational level of individual public sector agencies which results in a silo effect across government. The lack of understanding of the true value of risk management at the strategic level impedes its effective implementation across the sector. CSA believes that a more holistic and strategic view of risk should be adopted across governments — a framework which builds resilience when machinery of government changes occur.

CSA reiterates the importance of promoting professional directorship in this regard. Risk in the private sector is well understood and, inevitably, risk management processes are developed from the planning process that directors undertake. That is, directors ask questions about the risks that arise as they plan the strategic direction for their entity.

CSA notes, therefore, that achieving a positive risk culture is likely to engender thinking about risk in a manner which is different from the way it is currently conceptualised in public sector agencies. CSA believes that adopting a professional directorship approach can go some way to propelling changing mindsets in relation to engaging with risk and exploiting opportunities.

Earned autonomy

CSA understands earned autonomy as the process whereby entities set out to achieve results within the legal framework and in accordance with the government's policy priorities. A core set of minimum requirements will be set out across all entities and varied based on the risk profile of an entity. Individual entities will be rewarded for good performance, and discouraged for bad performance, with the earned autonomy model used also to minimise perverse incentives.

While CSA accepts the proposal of implementing the earned autonomy model, CSA cautions against imposing a blanket system whereby all entities are rewarded or discouraged in a particular way, as this may disadvantage certain types of entities. By way of example, CSA notes that non-government organisations (NGOs) that receive grants and funding from the government may be compromised where grant funding which has been committed within a budget cycle is withdrawn.

We note that we are unable to provide detailed feedback on the proposal without seeing the specifics of how such a model will operate. CSA also reiterates our earlier comments in relation to evaluating performance and creating public value which we believe will be relevant to the operation of the earned autonomy model.

Joining up

CSA strongly supports the proposals to ensure that legislation better accommodates the concepts of collective responsibility and multiple accountabilities; and to make clear that the responsibilities of public officials extends beyond those they owe to their individual organisations.

However, as we have previously stated, achievement of these proposals is contingent on recognising that performance targets should include the concept of value creation in the public sector, and integrating the concepts of directorship and professionalism into the oversight of agencies and portfolios.

We note that directorship and professionalism at the top of agencies and portfolios engaged in strategic thinking can set clear goals which translate and cascade down through their respective organisations. The agencies themselves can continue to deliver programs and services, knowing that their work is now aligned with the wider wellbeing of the community.

Integrated reporting

CSA notes that the position paper does not set out any proposals in relation to integrated reporting for public sector entities. The position paper refers to the development of an integrated reporting framework for Commonwealth entities based on a pilot program undertaken during the 2011-12 annual reporting cycle.

CSA is pleased to see that Commonwealth entities will be encouraged to adopt integrated reporting, as we are of the view that the integrated reporting framework, which will be issued for public consultation at the end of April, can help organisations to undertake integrated thinking, which allows them to undertake a change management program so that they can:

- break down the propensity to think and operate in 'silos' that occurs in many organisations
- approach the organisation's operations and desired outcomes in a desegregated manner in order to understand how the interrelationship of all its functions and actions can inform decisions concerning prospects, risks and opportunities
- make better decisions as a result of an enhanced understanding of the organisation's operations and desired outcomes.

CSA is strongly of the view that it is an individual journey for each organisation as they grapple with these matters and that integrated thinking cannot be achieved quickly. That is, an integrated report will be a work in progress.

CSA opposes any mandating of integrated reporting, as this will stifle the change management process that needs to occur within organisations in order to fulfil the objectives of integrated reporting. CSA commends the approach of encouraging the adoption of integrated reporting.

Such an approach will ensure consistency across both the public and private sectors in relation to integrated reporting.

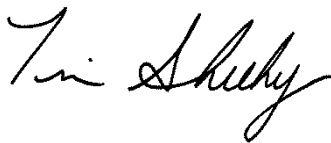
Conclusion

CSA is of the view that the feedback from stakeholders has been reviewed and crafted into further concepts which bode well for the reform process. However, CSA also believes that greater accountability and transparency could be built into the proposals adopted within the position paper.

As we noted earlier, it is difficult to comment in detail upon the proposals until more specific exposure drafts concerning the financial and performance framework are released for comment.

CSA would welcome the opportunity to discuss any of our views in greater detail.

Yours sincerely



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