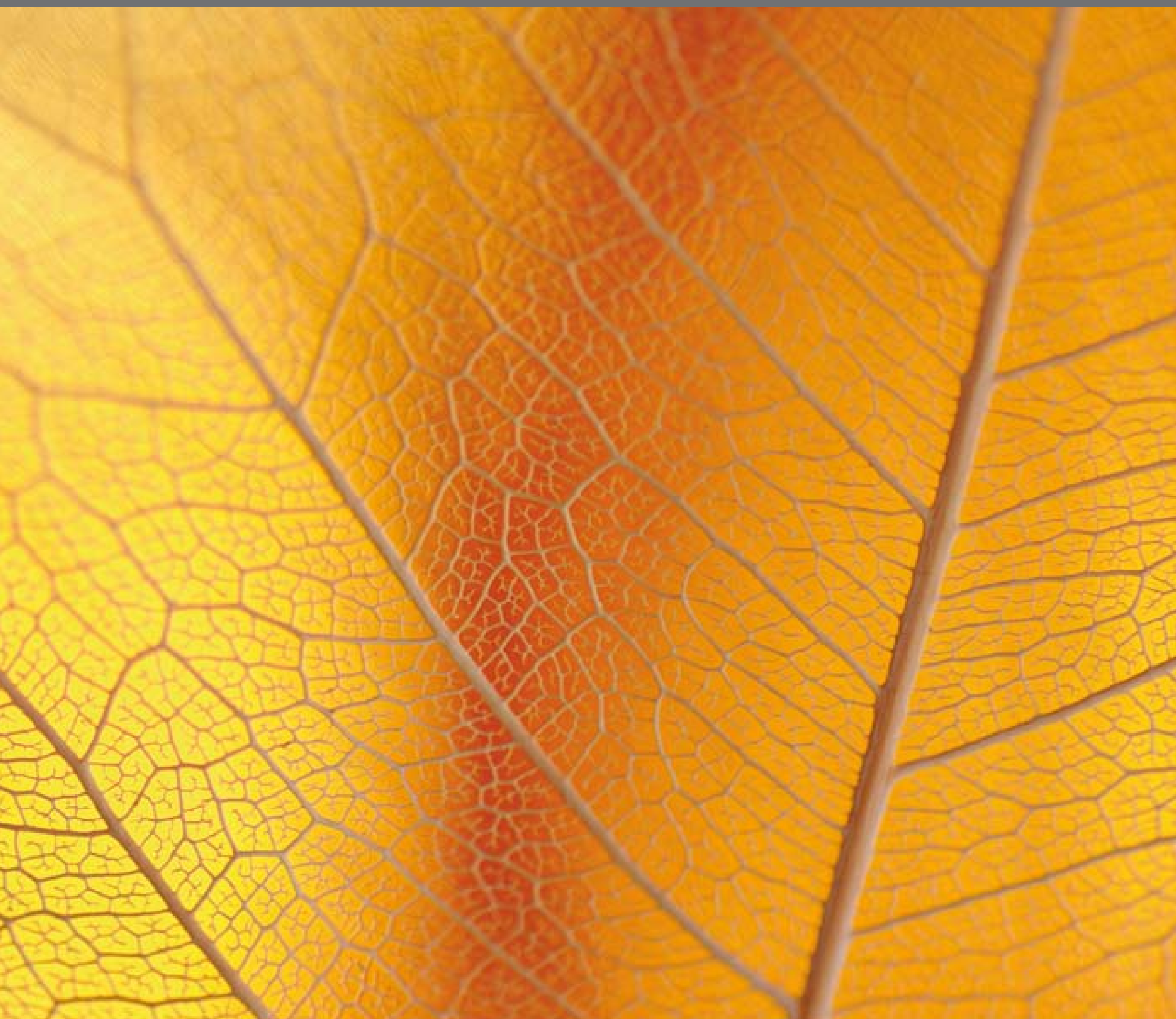
Contemporary Government

Challenges

Australian Government

Australian Public Service Commission

Building Better Governance



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Commissioner's foreword

My responsibilities as Public Service Commissioner encompass fostering leadership in the Australian Public Service (APS). A central responsibility of APS leaders is to ensure that sound governance policies and practices are embedded in their agencies.

Prominent examples in the media of private and public sector organisations losing their way have shifted governance into the spotlight. Achieving excellence in governance was identified as a key issue in my *2005–06 State of the Service Report*.

The challenge for public servants is understanding the full responsibilities of good governance. The Constitution, common law, specific public sector legislation, guidelines, conventions and agreements state the 'must do' elements of governance. A range of documents, such as *Foundations of Governance* published by my Commission and numerous publications by the Department of Finance and Administration and the Australian National Audit Office, cover off the 'musts'.

But there are other elements of good governance that are 'should do' elements. *Building Better Governance,* while covering some of the 'musts', focuses on providing guidance about the 'shoulds'.

When I talked with public service senior executives about what guidance and advice would be most helpful to them, the overwhelming preference was for practical, directly relevant and common sense examples about what agencies were actually doing—in other words why, how and what worked.

These guidelines provide this. Part One articulates what we mean by governance in the public sector and why good governance is important. Part Two outlines the building blocks for developing better governance. However, these guidelines are rightly dominated by Part Three which consists of case studies provided by a range of agencies of varying size and complexity. They illustrate a variety of systems, tools, approaches and cultures developed to meet the specific needs of each agency.

The case studies demonstrate two important things. Firstly, there is no 'one size fits all' approach to governance. While there are common elements, themes and models, agencies need to develop systems that meet their specific circumstances and be prepared to adapt and evolve their governance arrangements to meet changing needs.

Secondly, governance can only work if it is part and parcel of the culture of the organisation—it needs to be actively upheld and implemented by every person in the organisation. Everyone must know and act on their responsibilities.

I hope you enjoy reading about the experiences of agencies in the APS. The online version of these guidelines will be refreshed from time to time as new, interesting case studies emerge.

I would like to acknowledge the Department of Finance and Administration for its advice during the development of this publication and staff of all the agencies who gave their time in helping us compile the case studies. We are very grateful to you all.

Lynelle Briggs
Australian Public Service Commissioner

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Part One—What is Public Sector Governance?

Definition

Public sector governance covers:

> *'…the set of responsibilities and practices, policies and procedures, exercised by an agency's executive, to provide strategic direction, ensure objectives are achieved, manage risks and use resources responsibly and with accountability.'* [1]

It also encompasses the important role of leadership in ensuring that sound governance practices are instilled throughout the organisation and the wider responsibility of all public servants to apply governance practices and procedures in their day-to-day work.

Good governance is about both:

- **performance**—how an agency uses governance arrangements to contribute to its overall performance and the delivery of goods, services or programmes, and
- **conformance**—how an agency uses governance arrangements to ensure it meets the requirements of the law, regulations, published standards and community expectations of probity, accountability and openness.[2]

This means that, on a daily basis, governance is typically about the way public servants take decisions and implement policies.

1 ANAO and Department of the Prime Minister and Cabinet, 2006, *Implementation of Programme and Policy Initiatives: Making Implementation Matter, Better Practice Guide*, Commonwealth of Australia, Canberra, p.13 <http://www.anao.gov.au/uploads/documents/Implementation_of_Programme_and_Policy_Initiatives.pdf>

2 ANAO, 2003, *Public Sector Governance, Volumes 1 & 2: Better Practice Guide*, Commonwealth of Australia, Canberra, p. 6 <http://www.anao.gov.au/uploads/documents/Public_Sector_Governance.zip>

Governance Framework

The governance framework is based on principles of public sector governance including:

- **accountability**—being answerable for decisions and having meaningful mechanisms in place to ensure the agency adheres to all applicable standards
- **transparency/openness**—having clear roles and responsibilities and clear procedures for making decisions and exercising power
- **integrity**—acting impartially, ethically and in the interests of the agency, and not misusing information acquired through a position of trust
- **stewardship**—using every opportunity to enhance the value of the public assets and institutions that have been entrusted to care
- **efficiency**—ensuring the best use of resources to further the aims of the organisation, with a commitment to evidence-based strategies for improvement
- **leadership**—achieving an agency-wide commitment to good governance through leadership from the top.[3]

Agencies need to have an approach to governance that enables them to deliver their outcomes effectively and achieve high levels of performance, in a manner consistent with applicable legal and policy obligations. These general obligations are explored in detail in *Foundations of Governance in the Australian Public Service*.[4]

Why is it Important?

> 'Good governance is not an end in itself. The reason governance is important is that good governance helps an organisation achieve its objectives. On the other hand, poor governance can bring about the decline or even demise of an organisation.'[5]

The Public Service Commissioner has identified achieving excellence in governance as a key challenge for the Australian Public Service (APS).[6] Quality governance processes are essential to the APS as they provide the framework within which agencies can operate effectively. They also affect public confidence in the APS's capability and integrity, as well as its employees' satisfaction levels.

Efficient, effective and ethical governance is a major focus for agencies, particularly in light of the:

- changing nature of the public sector, with its greater focus on whole of government, delivering outcomes with and through other sectors, and greater contestability of advice and services

3 Ibid, *Guidance Paper No.1*, p.2

4 Australian Public Service Commission, 2005, *Foundations of Governance in the Australian Public Service, Commonwealth of Australia*, Canberra. <http://www.apsc.gov.au/foundations/index.html>

5 CCH, 2004, *Public Sector Governance—Australia*, Sydney, p.10–101

6 Australian Public Service Commission, 2006, *State of the Service Report 2005–06*, Commonwealth of Australia, Canberra, p.6 <http://www.apsc.gov.au/stateoftheservice/0506/report.pdf>

- Government's response to the Uhrig Review[7], which has led to improved governance for Australian Government bodies through greater consistency in organisational design, clearer expectations, greater clarity in communication through parallel reporting, and better practice principles for governing bodies
- requirements for Chief Executive Officers to complete a certificate of compliance, covering their agency's compliance with the financial management framework, strategies for dealing with known risks, and any breaches and associated remedial strategies[8]
- implications of well-publicised organisational shortcomings and their consequences (e.g. as outlined in the Palmer and Comrie reports about the former Department of Immigration and Multicultural and Indigenous Affairs[9] and the inquiry by Commissioner Cole into the private sector body, the Australian Wheat Board[10])
- moves to reduce internally imposed red tape and improve the effectiveness of internal controls and regulation[11]
- need for better recordkeeping as part of improved accountability and governance arrangements as reflected in the Management Advisory Committee report on recordkeeping[12].

7 Uhrig, J., 2003, *Review of the Corporate Governance of Statutory Authorities and Office Holders*, Report to the Prime Minister and Minister for Finance and Administration, June 2003. <http://www.finance.gov.au/governancestructures/>

8 Department of Finance and Administration, 2006, *Finance Circular No. 2006/08 Certificate of Compliance—FMA Act Agencies* <http://www.finance.gov.au/finframework/docs/fc_2006.08.rtf >

9 Palmer, M., 2005, *Inquiry into the Circumstances of the Immigration Detention of Cornelia Rau*, Commonwealth of Australia, Canberra.<http://www.minister.immi.gov.au/media/media-releases/2005/palmer-report.pdf> and Comrie, N. 2005, *Inquiry into the Circumstances of the Vivian Alvarez Matter*, Commonwealth of Australia, Canberra. <http://www.comb.gov.au/commonwealth/publish.nsf/AttachmentsByTitle/reports_2005_03_dimia.pdf/$FILE/alvarez_report03.pdf>

10 Cole, T., 2006, *Report of the Inquiry into Certain Australian Companies in Relation to the UN Oil-for-Food Programme*, Commonwealth of Australia, Canberra <http://www.offi.gov.au/agd/WWW/unoilforfoodinquiry.nsf/Page/Report>

11 Management Advisory Committee (MAC) Report, 2007, *Reducing Red Tape in the Australian Public Service*, Commonwealth of Australia, Canberra. <http://www.apsc.gov.au/mac/redtape.htm>

12 Management Advisory Committee (MAC) Report, 2007, *A Note for File: A Report on Recordkeeping in the Australian Public Service*, Commonwealth of Australia, Canberra. <http://www.apsc.gov.au/mac/noteforfile.htm>

Part Two—Building Blocks for Effective Governance

Approaches or models for building better governance differ considerably depending on agency size, complexity, structure and legislative background. Agencies striving for better governance should constantly test and adapt their models to meet changing circumstances.

However, strong governance models are of little value if agencies do not encourage employees to take responsibility for issues within their control and to actively deal with matters as they arise.

It is also vital that agencies have well-established processes for monitoring all aspects of their corporate health and for escalating issues of significant risk, and that they do not sweep bad news under the carpet, but ensure it is resolved by the right people at the right time. A strong focus on building and sustaining effective governance frameworks and on detecting signs of poor governance or failing corporate health can help agencies deal with problems before they develop into serious performance issues.

While there is no 'one size fits all' approach, the case studies in Part Three illustrate common themes that are fundamental to successfully implementing better governance. These building blocks reinforce the elements contained in the Australian National Audit Office (ANAO) 'house of public sector governance' (see Appendix A). In particular, the building blocks support the elements of leadership, ethics and performance culture; stakeholder relationships; risk management; planning and performance monitoring; and review and evaluation of governance arrangements.

The basic building blocks that need to be considered when establishing or reviewing governance arrangements are:

- strong leadership, culture and communication
- appropriate governance committee structures
- clear accountability mechanisms

- working effectively across organisational boundaries
- comprehensive risk management, compliance and assurance systems
- strategic planning, performance monitoring and evaluation
- flexible and evolving principles-based systems.

1. Strong Leadership, Culture and Communication

Strong commitment from the top that cascades across the agency

Strong leadership is critical. The case studies highlight the importance of strong leadership by heads of agencies and senior management. For example, several agencies cite the clear direction and support of their Secretary as a crucial success factor. But success also depends on the leadership of the senior executive as a whole. Senior managers must 'walk the talk'—modelling good governance behaviours and demonstrating a commitment to achieving Government objectives through accountable processes.

Line managers also need to consistently and regularly send the same messages to reinforce the organisation's governance approaches. All employees must be encouraged to take their governance responsibilities seriously, and be active participants in the agency's governance processes.

Employees are key players in the organisation. They are 'on the ground' and can see where things need to change, what's going wrong or who is doing the wrong thing.

> 'The 'tone at the top' strongly influences virtually all elements of governance.'[13]

An ethical and values-based culture

Excellent leadership must be supported by a strong organisational culture. Clear and ongoing communication about the agency's governance requirements needs to be coupled with strategies that encourage cultural change where required.

Agencies need to demonstrate to staff how governance systems help improve performance and achieve goals. It is also important that everyone understands the governance system and their responsibilities for contributing to a sound governance culture.

As part of a sound ethical culture, staff should clearly understand their responsibilities under the *Public Service Act 1999* to abide by the APS Values and Code of Conduct. Agencies should also have well-understood procedures for dealing with problems or complaints raised by citizens and staff, including whistleblowers' reports. Procedures should ensure fairness, transparency, independence and appropriate recordkeeping.[14]

13 ANAO, 2003, *Public Sector Governance, Volumes 1 & 2: Better Practice Guide*, Commonwealth of Australia, Canberra, p. 15 <http://www.anao.gov.au/uploads/documents/Public_Sector_Governance.zip>

14 Australian Public Service Commission, 2001, *Circular No 2001/4: Whistleblowers' reports*, <http://www.apsc.gov.au/circulars/circular014.htm>

‘Ethics is embedded in culture. Those at a governance level can ensure an ethical culture by modelling desired behaviours, discussing difficult ethical issues, and ensuring consistency between any rules and actual behaviours.’[15]

Frequent and consistent communication

Communication to all staff about their objectives and responsibilities must be ongoing, consistent and part of all senior management communication to staff including in everyday situations. Information can be made available through speeches, staff meetings, articles in newsletters and on the intranet, performance appraisal discussions and regular discussions about policy and programme development. One way to ensure that a constant and consistent message is sent to all staff is to make a specific area of the agency responsible for governance-related communication.

Employees’ responsibilities

Good governance requires all employees to think carefully about their decisions and actions, and to be interested and active players in their agency’s management and outcomes. It is not an ‘us and them’ situation with only executives and managers responsible for governance matters—everyone in the agency is responsible. The quality of the agency’s governance relies on each employee taking individual responsibility as well as a team effort.

Ongoing training and support for staff

It is essential to provide ongoing training and support for staff responsible for decision-making, programme implementation and financial management. The level of training and support needs to be commensurate with the level of responsibility devolved to staff and the complexity and risk of the decision-making context. Otherwise it is difficult to ensure compliance even with the best-designed governance model.

Training should also cover the APS Values and Code of Conduct. These define the standards of behaviour required by APS staff and cover issues related to governance such as recognising conflicts of interest, maintaining confidentiality, complying with the law and agency directions, and reporting unlawful or unethical behaviour through proper channels.

‘Good governance is enacted through the behaviours and actions of staff at all levels as they contribute to the efficient, effective and ethical delivery of their organisation’s goals.’[16]

2. Appropriate Governance Committee Structures

Factors influencing committee structure

All agencies use committees to support the agency head in decision-making and governance arrangements. Some committees are mandatory (such as those for audit and occupational health and safety) while others are of an advisory nature only.

15 CCH, 2004, *Public Sector Governance—Australia*, Sydney, p. 40–101

16 ANAO, 2003, *Public Sector Governance, Volumes 1 & 2: Better Practice Guide*, Commonwealth of Australia, Canberra, p. 1 <http://www.anao.gov.au/uploads/documents/Public_Sector_Governance.zip>

The appropriate committee structure for an agency depends on its size, the breadth and diversity of its functions, the complexity of its responsibilities, the nature of its business and its risk profile.

Where an agency is small, where staff are concentrated in one geographic location, and/or where the range of functions is reasonably narrow, communication of key issues across the organisation may be relatively straightforward. Group managers or division heads may meet face-to-face with the agency head (and their deputies) on a weekly or fortnightly basis to raise and deal with matters—requiring only a small number of committees across the agency.

Larger agencies, with a wider geographical spread and/or a greater diversity of functions, typically have more detailed committee structures, including flexibility to deal with complicated (and often urgent) matters that cut across several areas. Larger agencies may grapple with ensuring that many divisions with devolved responsibilities (and sometimes with very different objectives, stakeholders and cultures) operate within a clear, cohesive and integrated governance framework. The case studies include examples of agencies that allow for high levels of devolution but within a structured and centrally controlled framework.

Occasionally, the operation of committees can create confusion regarding accountability issues. A committee's role should be to advise the agency head or chief governance team, and/or to undertake specific work or make decisions about specific issues. Committees can build agency expertise and share workloads. They should not assume ultimate decision-making power, which is the responsibility of the agency head or chief governance team.

'In establishing a committee, chief executives must remember that they cannot delegate their ultimate responsibility for governance.'[17]

Typical committee structure

A fairly typical committee structure in APS agencies includes:

- a senior executive committee (agency head, deputies and sometimes chief financial officer and head of corporate services)
- a senior management committee (broader SES membership)
- an audit committee responsible for risk management, the agency's control framework, its external accountability responsibilities, compliance with legislation, and its internal and external audit activities[18]
- an information and communications technology committee
- a people management committee to develop policies and practices to attract, retain and manage staff and their performance
- an occupational health and safety committee[19]

17 CCH, 2004, *Public Sector Governance—Australia*, Sydney, p. 80–000.

18 ANAO, 2005, *Public Sector Audit Committees: Having the Right People is the Key, Better Practice Guide*, Commonwealth of Australia, Canberra. <http://www.anao.gov.au/director/publications/betterpracguides.cfm?pageNumber=2>

19 *Occupational Health and Safety Act 1991*.
<http://www.comlaw.gov.au/comlaw/management.nsf/lookupindexpagesbyid/IP200401538?OpenDocument>

- a consultative committee/workplace relations committee to seek staff input into administration and workplace issues.

There may also be frequent and regular formal meetings between the agency head and deputies (or their equivalents) and division heads to identify and manage 'hot' issues and progress against objectives.

Appendix B depicts an example of a typical governance committee structure and its interaction with the planning processes and day-to-day operation of the agency.

Additional committee structures

In addition to the typical committee structure, agencies examined in the case studies had implemented a range of other oversight or coordinating committees, many of which were sub-committees of the senior executive committee. Matters overseen by such additional committees include:

- ethics, values and standards
- security, including business continuity
- remuneration
- research
- programme management
- fraud and integrity
- accommodation
- performance management
- strategic planning.

In some cases, these committees are established to implement specific Government initiatives or complex work cutting across the agency. In other cases, they are formed to oversee programmes or policy areas identified as key risks. These committees are often time-limited.

It is possible for agencies to appoint external members to their committees to provide a broader perspective. The ANAO suggests that appointing external members to audit committees is an effective way of strengthening the committee's actual and perceived independence.[20]

Appendix C provides examples of the internal governance committee structures of some of the case study agencies.

20 ANAO, 2005, *Public Sector Audit Committees: Having the Right People is the Key, Better Practice Guide*, Commonwealth of Australia, Canberra. <http://www.anao.gov.au/director/publications/betterpracguides.cfm?pageNumber=2>

Establishing effective committees

Regardless of the committee structure, these best practice protocols should be followed when establishing and operating committees:

- establish clear terms of reference/charters including the purpose and role of the committee, the responsibilities of its members, and its accountability to (or degree of independence from) the agency head
- select the right members for the task—whether representative or related to expertise
- equip committee members with the skills and resources they need to play an active role in committee deliberations
- provide appropriate and skilled secretariat support with the backing of senior management
- ensure briefing papers are sent out in a timely manner so that all members have the opportunity to consider them thoroughly
- develop sound recordkeeping and reporting protocols
- review committee performance and appropriateness on a regular basis, particularly when the functions of the organisation change, to ensure that the number of committees and the workload they create for staff remains reasonable and appropriate
- ensure committees are and remain strategically focused, aligned and integrated—developing a work plan for the year ahead can assist with this
- determine whether committees are ongoing or time/purpose limited.

> 'Confidence in a committee will be enhanced if it has clear and transparent governance arrangements. A regular schedule of meetings, with prearranged dates and written agendas, papers and minutes, as well as a list of actions decided at each meeting, is important. It follows that staff support, including a confidential secretary, should be available. It may also be necessary for the chief executive to arrange for a committee such as an audit committee to be able to seek external professional advice when needed.'[21]

The review of Department of Defence management released in early 2007[22] provides some commonsense advice about committees and how to use them most effectively. Although the advice is specifically directed to Defence, it is generally relevant to all agencies, particularly large organisations.

The review notes that the committee system plays a major role in binding together a large and diverse organisation. The review recommends that the guiding principle for committees is to establish and retain only those that contribute to the effective and efficient running of the organisation, and also reduce the pressure and workload on senior staff.

21 CCH, 2004, *Public Sector Governance—Australia*, Sydney, p. 80–110.

22 Proust, E., Ritchie, C., Kallir, A., Azarias, J., 2007, *Report of the Defence Management Review*, Commonwealth of Australia, Canberra. <www.defence.gov.au/dmr>

Each committee must have a clear purpose and a clear sense of its strategic obligations. The core questions agencies should ask themselves include:

- Does this committee enhance the agency's strategic focus?
- Is it the best use of senior people's time?
- Could these outcomes be achieved in another way?

The review recommends that, while the agency head is the ultimate decision-maker, a top executive committee should set the strategic direction of the agency, advise on significant management and investment decisions, and monitor financial performance and compliance standards.

The review considered that core sub-committees in the Defence context included audit, people management, OH&S and risk management committees. It strongly recommended that committees established for specific purposes or projects should have a sunset clause at which time their existence should be reconsidered.

The review also recommended that rather than seeking representational membership, committees limit membership to those who are essential to reaching informed decisions. Others can be invited to participate on an 'as needed' basis. Of course, membership depends on the committee's role and purpose. For example, if a critical role is to ensure a consistent approach is taken across the agency, representational membership may be appropriate.

3. Clear Accountability Mechanisms

Organisational structure

Clear and unambiguous lines of reporting, accountability and responsibility, both within the organisation and with its stakeholders, are critical to effective governance. Several of the case study agencies had recently reviewed and realigned their organisational structure to achieve this.

In its response to the Uhrig Review, the Government agreed to a central area providing advice on appropriate governance and legislative structures when establishing or reviewing statutory authorities. In this context, the Department of Finance and Administration published whole of government guidance entitled *Governance Arrangements for Australian Government Bodies*[23] in August 2005, to provide a solid platform for informed discussion on governance.

Some agencies have established a particular branch or unit charged with the overall strategic governance of the organisation. Responsibilities of such areas commonly include:

- providing secretariat support to the senior executive committee
- driving or overseeing risk management processes across the agency, following up on perceived risks and alerting senior management to these
- monitoring and reporting on key activities

23 Department of Finance and Administration, 2005, *Governance Arrangements for Australian Government Bodies*, Financial Management Reference Material No. 2, Commonwealth of Australia, Canberra. p.v < http://www.finance.gov.au/finframework/governance.html>

- coordinating annual and financial reports
- developing a strategic framework for overall ongoing assessment and review of how the agency is performing
- supporting organisational development (in conjunction with the human resources area).

'…the importance of a good governance framework is that it helps bodies to implement government policies, deliver services well, meet their organisational goals and achieve sustainable outcomes.'[24]

Managing the relationship with the Minister

A key governance process is the agency's relationship and communication with the Minister and his or her advisers. The Australian Public Service Commission provides examples of good practice protocols for dealing with Ministers in Appendix 3 of *Supporting Ministers, Upholding the Values: A Good Practice Guide*[25]. For example, one department issued General Principles for the Preparation of High Quality Advice to Ministers, and another department prepared documentation setting out the regular meetings that occur between agency officials and the Minister, and how these work.

'Managing the relationship with the responsible Minister, and through him or her with the government as a whole, is a critical element of public sector governance.'[26]

Relationships with portfolio entities

The accountability relationship between the Minister, the head of the portfolio and agency heads is particularly important. The exact nature of that relationship is generally defined by the legislative framework surrounding the establishment and operation of the portfolio entities, but within any framework sound communication plays a central role.

In his review of statutory authorities and office holders, John Uhrig identified a number of factors causing ineffective governance in some authorities, including 'unclear boundaries in their delegation, a lack of clarity in their relationships with Ministers and portfolio departments, and a lack of accountability for the exercise of their power'. The review suggests that such problems often arise due to a 'hands-off' approach assumed by many when dealing with statutory authorities.[27]

Clearly articulated responsibilities and lines of reporting are required, along with communication through both formal and informal mechanisms. Written protocols can assist by detailing the processes for identifying high risk problems and notifying the departmental Secretary and Minister of pertinent issues.

24 Ibid, p.v

25 Australian Public Service Commission, 2006, *Supporting Ministers, Upholding the Values: A Good Practice Guide*, Commonwealth of Australia, Canberra. <http://www.apsc.gov.au/publications06/supportingministers.htm>

26 CCH, 2004, *Public Sector Governance—Australia*, Sydney, p 10–030

27 Uhrig, J., 2003, *Review of the Corporate Governance of Statutory Authorities and Office Holders*, Commonwealth of Australia, Canberra, p. 5 <http://www.finance.gov.au/governancestructures/docs/The_Uhrig_Report_July_2003.pdf>

4. Working Effectively Across Organisational Boundaries

Relationships with external stakeholders

APS agencies are accountable to the general public through the Parliament as well as to the Government. The success of relationships that agencies develop with stakeholders, including the public, is affected by the agency's reputation of integrity, openness and accountability. On a practical level, stakeholders need to trust that decisions affecting them are made consistently and openly, and that they will be dealt with in a consistent way by all parts of the agency.

Agencies need to ensure that they can explain and defend their decision-making and that they have clear procedures for dealing consistently and equitably with stakeholders. Agencies can develop organisation-wide protocols and checklists for dealing with external stakeholders. Protocols may include service standards or charters, and systems for monitoring complaints and identifying systemic issues. Regular stakeholder surveys can measure satisfaction levels.

> 'Relationships with stakeholders need to be reflected formally in governance structures to provide adequate communication flows and manage possible conflicts of interest'.[28]

Whole of government approaches

The governance implications of whole of government approaches centre on the need to know 'who is responsible for what; whether there is a common goal or whether agencies have discrete responsibilities; and which agency provides the leadership'.[29]

According to the Auditor-General for Australia, challenges in whole of government arrangements may include a lack of clear leadership; blurred lines of accountability; difficulties in measuring overall effectiveness and impact; and transitional costs and some level of duplication in ongoing administrative costs.[30]

Whole of government approaches require management and coordination of governance, particularly accountability arrangements, across a range of boundaries, especially agency boundaries and sometimes state or local government sectors.

Agencies should develop written protocols or Memoranda of Understanding to document the responsibilities of the various parties. Useful guidance about consultation and accountability arrangements can be found in the document *Working Together* produced by the Management Advisory Committee.[31]

28 ANAO, 2003, *Public Sector Governance, Volumes 1 & 2: Better Practice Guide*, Commonwealth of Australia, Canberra, p. 17 <http://www.anao.gov.au/uploads/documents/Public_Sector_Governance.zip>

29 McPhee, Ian, Auditor-General for Australia, 2007, *Governance: the ANAO's Contribution to Making it Happen*, speech delivered to the Queensland Regional Heads Forum, 18 May 2007.

30 Ibid.

31 Management Advisory Committee, 2005, *Working Together: Principles and Practices to Guide the Australian Public Service*, Commonwealth Government, Australia, <http://www.apsc.gov.au/mac/workingguide.htm>

There is a need for careful choice of the appropriate structures to support whole of government work, and these are discussed in the Management Advisory Committee report on *Connecting Government*[32]. Structures and processes must be matched to the task—no one size fits all. For example, if there is deep contention between portfolios, or in the community, and tight timeframes are involved, a dedicated taskforce under strong leadership and working directly to the Prime Minister, a senior Minister or a Cabinet committee may produce better outcomes than a more standard interdepartmental committee.

Cross-portfolio work can particularly challenge the budgeting and accountability framework. The Department of Finance and Administration should be consulted at an early stage in the development of major cross-portfolio initiatives to ensure that the flexibility that is possible in the existing outcomes and outputs budget framework is maximised and used to facilitate a cross-portfolio approach.

'Business and the wider community reasonably expects that government programmes and services will be delivered, increasingly, in a seamless way; and this includes cross-government or jurisdictional boundaries.'[33]

Devolved governance arrangements

Agencies increasingly deliver services with and through non-government bodies or networked government arrangements with the states and territories. While the actual service delivery may be outsourced, accountability and risk management cannot be outsourced—ultimate responsibility lies with the APS agency concerned.

Effective, responsive and sustainable devolved governance requires agencies to develop strong accountability frameworks that emphasise the importance of standards which can be contractual and/or set through service charters and other governance arrangements. The standards are enforced through administrative review and performance management regimes.

At an operational level, agencies involved in such arrangements have devised and implemented a number of control mechanisms to assist them to meet their own accountability requirements as well as the Government's accountability to service users and the general community. Broadly, these control mechanisms are intended to leave the provider free to manage the delivery process but still be accountable to public servants for specified outputs and for meeting targets or indicators. The APS, in turn, is accountable for setting and monitoring these indicators, and should build evaluation and review into contracts and regulations to ensure accountability frameworks are rigorous.

It is important, however, that performance measures, especially lower level indicators, are set in such a way that they do not undermine the responsiveness of more complex devolved governance arrangements. There is a danger that excessive direction and compliance can stifle innovation and flexibility. A balance needs to be struck between proper levels

32 Management Advisory Committee, 2004, *Connecting Government: Whole of Government Responses to Australia's Priority Challenges*, Commonwealth Government, Australia, <http://www.apsc.gov.au/mac/index.html>

33 McPhee, Ian, Auditor-General for Australia, 2007, G*overnance: the ANAO's Contribution to Making it Happen*, speech delivered to the Queensland Regional Heads Forum, 18 May 2007

of accountability and allowing third-party providers some measure of flexibility and responsiveness to their clients. There is no one appropriate governance arrangement, but rather a spectrum of control possibilities, against which agencies will need to develop the arrangements that are particular to their situation. A focus on genuine outcomes rather than narrow targets, however, is likely to be appropriate.

5. Comprehensive Risk Management, Compliance and Assurance Systems

Comprehensive and flexible systems

Agencies should recognise the importance of having flexible compliance, decision-making and risk management systems to allow for changes in leadership, objectives, direction, resources and risk. Without inbuilt flexibility, there is the possibility that agencies may simply use a 'tick-box' approach which could encourage complacency followed by major problems.

> 'Strong, transparent and well communicated governance mechanisms like risk and fraud plans, business or budget committees, audit committees, and structured HR mechanisms, together with an emphasis on integrity and ethics, combine to form the cement which binds together the other characteristics needed for organisational confidence.' [34]

Risk management

Risk management underpins any agency's approach to achieving its objectives. An important responsibility of any Government body is the effective and efficient use of Commonwealth resources. This aim can be aided by sound risk management practices. To increase the likelihood of achieving desired outcomes, informed decisions should be made based on evaluation of the associated risks.

All agencies need to establish and implement sound systems for risk oversight and management and internal control, and these systems should be integrated into the business planning process. Systems should be designed to identify, assess, monitor and manage risk throughout the agency. They also need to provide mechanisms for staff to report risks to senior management.

Agencies examined in the case studies incorporated risk management as a key component of good governance.

While the risk management system should be comprehensive—and the recordkeeping system appropriately detailed—regular, concise reports on how the agency is tracking in key risk areas should also be provided to the agency's senior executive. Some agencies have adopted a one-page reporting format, with further detail available if required.

34 Stanton, M. 2007, *Building Confident Organisations: Looking Forward, Looking Back,* in Public Administration Today, Issue 11: April – June 2007, Institute of Public Administration Australia, p. 15

'Risk management should not be an annual 'set and forget' exercise. A well-governed organisation regularly revisits its risks, measures the occurrence of any events identified as contributing to risks, and has in place strategies for risk mitigation.'[35]

Audit committees

Under the *Financial Management and Accountability Act 1997* (FMA Act) and the *Commonwealth Authorities and Companies Act 1997* (CAC Act), each agency must establish an audit committee to independently review and consider its operations and competence as well as the integrity of its accounts.

Audit committees are an important tool for identifying and monitoring risks to the agency. Generally they are responsible for overseeing an agency's risk management and internal control framework, its external accountability and other legislative compliance responsibilities.

Detailed guidance on establishing and operating public sector audit committees is available in the ANAO better practice guide *Public Sector Audit Committees*.[36]

'An Audit Committee plays a pivotal role in the governance framework of organisations in both the public and private sectors.'[37]

Compliance and decision-making tools

Agencies can introduce a range of tools and systems to enhance their compliance and decision-making processes. These include written guidelines and protocols, checklists, and help and advice from corporate areas. Several agencies examined in the case studies had developed organisation-wide written protocols for dealing with issues such as financial management, procurement and programme management.

Chief Executive's Instructions (CEIs) are a particularly useful tool to ensure that the agency's financial accountability and governance arrangements are aligned to its operational and legal needs. They often form the core of agencies' accountability requirements. The Management Advisory Committee's review of red tape in the APS[38] highlights the importance of reviewing and simplifying CEIs to ensure they are readily understood and adopted throughout the agency.

Documenting protocols and procedures can be particularly important even when agencies have long-standing, highly experienced staff. Their knowledge can be taken for granted and, as a result, knowledge transfer and recording of procedures can be neglected. Detailed documentation of procedures is equally important where there is high staff turnover.

35 CCH, 2004, *Public Sector Governance—Australia*, Sydney, p. 110–080

36 ANAO, 2005, *Public Sector Audit Committees: Having the Right People is the Key, Better Practice Guide*, Commonwealth of Australia, Canberra. <http://www.anao.gov.au/director/publications/betterpracguides.cfm?pageNumber=2>

37 Ibid.

38 Management Advisory Committee (MAC) Report, 2007, *Reducing Red Tape in the Australian Public Service*, Commonwealth of Australia, Canberra. <http://www.apsc.gov.au/mac/redtape.htm>

‘Good recordkeeping is also essential to accountability. All significant decisions or actions need to be documented to a standard that would withstand independent scrutiny. Proper recordkeeping allows others to understand the reasons why a decision was made or an action taken and can guide future decision-makers.’[39]

6. Strategic Planning, Performance Monitoring and Evaluation

Planning and review mechanisms

Strategic planning and performance monitoring, reviews and evaluations are all essential tools for ensuring agencies regularly ‘reality check’ their governance systems and identify potential risks that could affect their ability to achieve outcomes.

An agency’s characteristics—its budget, staff, culture, objectives and environment—may change over time, even without significant events such as changes of policy or Government. Agencies must have systems in place which allow changing needs and circumstances to be identified quickly; current systems to be assessed against their ability to meet new needs; and new approaches to be investigated and implemented as necessary.

Strategic planning

As part of normal business practice, agencies generally develop a business plan each year. Agencies should have an integrated framework for business planning which cascades from strategic priorities to divisional priorities and activities.

These goals are then distilled into individual performance and development plans. This allows every employee to see exactly how their individual work affects their team goals, their division’s goals and their agency’s goals. It also shows how working towards these goals helps achieve the agency’s overall priorities.[40]

Performance monitoring and evaluation

Agencies should have systems in place that allow ongoing monitoring of performance. This includes internal audits and reviews of processes to ensure accurate information and quality assurance against agreed performance measures.

Performance measures should cover the effective and efficient delivery of Government policy and programme objectives as well as the internal management of the agency. Detailed guidance can be found in the Department of Finance and Administration document *Performance Reporting Under Outcomes and Outputs.*[41]

39 Australian Public Service Commission, 2003, *APS Values and Code of Conduct in Practice: A Guide to Official Conduct for APS Employees and Agency Heads*, Commonwealth of Australia, Canberra.<http://www.apsc.gov.au/values/conductguidelines.htm>

40 Murphy, J., 2007, *Undertaking a Governance Review,* paper to the Ethical Leadership and Governance in the Public Sector Conference, May 10 2007, Canberra.

41 Department of Finance and Administration, 2003, *Performance Reporting Under Outcomes and Outputs*, Commonwealth of Australia, Canberra. <http://www.finance.gov.au/budgetgroup/Commonwealth_Budget_-_Overview/performance_reporting.html>

An agency's monitoring and evaluation plan should be a rolling schedule which supports regular reviews of programmes and policies to inform future funding requirements.

Programmes, procedures and policy—including operational policy—should also be regularly reviewed to gauge their effectiveness in delivering desired outcomes, and to ensure that they are operating efficiently. They should also be examined for appropriateness—the extent to which the programme/policy objectives align with Government priorities. The monitoring and evaluation framework should also integrate risk management, resource allocation and performance reporting.[42]

Agency health

Processes for monitoring corporate health need to be an integral part of an agency's governance framework. Assessing corporate health goes beyond measuring the current effectiveness of the agency in meeting its agreed performance measures. Corporate health covers all aspects of an agency's governance. It includes issues such as how an organisation is managed, its corporate and other structures, its culture, its policies and strategies, and the way it deals with its various stakeholders. Monitoring the health of an agency allows agencies to 'take the pulse' of their organisation, and to identify early warning signs that they may be at risk of poor performance.

Six broad areas of corporate health are central to the early identification of agencies at risk of poor performance. These areas cover the broad spectrum of governance issues and include organisational direction, leadership, organisational capability, corporate governance processes, relationships and integrity, and organisational culture. There are also some issues that are specific to the public sector.

Against each of these areas there are key indicators of corporate health associated with organisations that perform well, and with agencies at risk of poor performance. For example, in an agency with high levels of corporate health, there is likely to be an awareness of, and focus on, core business throughout the organisation. Conversely, in an agency at risk of poor performance, there may be poor communication of organisational purpose, strategies and vision.

The Commission's publication *Agency Health—Monitoring Agency Health and Improving Performance*[43] deals with these issues in more detail and provides a checklist to facilitate agency discussions on corporate health. The checklist provides a detailed list of corporate health indicators associated with organisations that perform well, and those associated with agencies at risk of poor performance. It also provides ideas for how agencies can assess their corporate health.

42 Murphy, J., 2007, *Undertaking a Governance Review*, paper to the Ethical Leadership and Governance in the Public Sector Conference, May 10 2007, Canberra.

43 Australian Public Service Commission, 2007, *Agency Health—Monitoring Agency Health and Improving Performance*, <http://www.apsc.gov.au>

7. Flexible and Evolving Principles-based Systems

Principles-based rather than rule-driven

Rules are necessary, but an organisation that is strictly bound by rules may not be able to respond appropriately to unusual, complex or new circumstances. An understanding of the policies and objectives behind the rules allows sound decision making rather than decision making by a 'tick-box' approach alone.

The case studies highlight the potential benefits of a stronger focus on a principles-based approach, leading to greater flexibility and responsiveness to Government needs. This also increases senior management's ability to apply a broader, future-oriented strategic approach, including to whole of government issues.

Tackling wicked problems

The need for a flexible approach to traditional governance arrangements is most clearly highlighted in dealing with what are sometimes called 'wicked' policy problems. These problems share a range of characteristics—they go beyond the capacity of any one organisation to understand and respond, and there is often disagreement about the causes of the problems and about the best way to tackle them.

Very often, part of the solution to wicked problems involves achieving sustained behavioural change by some groups of citizens or by all citizens. There are numerous examples including dealing with obesity, climate change, Indigenous disadvantage or land degradation. For these problems, a traditional approach to governance which attempts to clearly identify specific outcomes and outputs, implementation plans and performance targets may lead to these types of wicked problems being handled too narrowly or the emergence of unintended consequences.

For wicked problems to be handled successfully, governance structures need to support holistic approaches, focus accountability on the whole of government outcomes the Government is seeking, and allow for the engagement of stakeholders and citizens. Performance measurement and evaluation needs to avoid a narrow 'bean counting' approach to whether the government's objectives are being met, and take into account the likely need for longer time frames for results to become apparent.

There are no easy answers as to what the best governance arrangements for dealing with wicked problems are. It is important for agencies to look for a balance between achieving necessary levels of accountability and ensuring that governance arrangements do not stifle flexibility, innovation and collaboration. The Commission's *Tackling Wicked Problems—A Public Policy Perspective*[44] publication also deals with these issues.

> 'Travelling the road of good corporate governance won't guarantee success, but not travelling upon it will almost certainly guarantee failure.'[45]

44 Australian Public Service Commission, 2007, *Tackling Wicked Problems—A Public Policy Perspective*, <http://www.apsc.gov.au>

45 Abetz, Senator The Hon Eric, 2003, *The Role of Corporate Governance in Improving Transparency and Accountability in the Public Sector*, p.8

Part Three—Departmental Case Studies

In late 2006, the Australian Public Service Commission and the Department of Finance and Administration held consultations with all APS departments to seek their views on governance in the public sector. It was agreed that it would be useful to provide agencies with a 'road map' of governance references and information. It was also felt that it would be particularly valuable for agencies to share stories about their own governance experiences, as a way for others to gain useful insights and ideas that they may implement.

The range of issues covered in the case studies is broad:

- how to organise financial and staffing arrangements
- discussions of various internal governance committee structures
- ways of communicating governance messages
- managing relationships with external stakeholders and portfolio entities
- implementing change.

The case studies highlight the point that, while approaches to governance issues vary or different issues may dominate, there are several important common themes. That's why it is important to focus on the building blocks to good governance in Part Two of this document.

Over time, the aim is to add further case studies to show the ways in which different agencies approach the practical implementation of good governance.

Department of Human Services

How changes in governance brought together a range of disparate service delivery agencies into a holistic service delivery system which is responsive and accountable to both the Government and the public.

The department

The Department of Human Services (DHS) was established in 2004 to improve the development and delivery of Australian Government social and health-related services to the community. The department is responsible for ensuring the Government is able to get the best value for money in service delivery while emphasising continuous improvement and a whole of government approach.

The department's role is to direct, coordinate and broker improvements to service delivery by the six Human Services service delivery agencies: Centrelink; Medicare Australia; Child Support Agency; CRS Australia; Australian Hearing; and Health Services Australia.

The department employs approximately 240 staff and more than 37 000 are employed in the Human Services portfolio.

The challenge

The department works to ensure that the portfolio service delivery agencies are responsive to the Government and provide services to the public as part of a holistic and integrated framework. The Human Services portfolio has an operating budget of around $4 billion a year but delivers benefits to citizens of around $100 billion a year.

Implementing the new arrangements was a huge challenge. Each of the service delivery agencies had over time developed their own operating systems, culture and objectives. Not only did administrative procedures have to change but the culture required an overhaul as well.

Some agencies, such as those that had operated under the governance of boards, did not have experience in delivering whole of government objectives and had not been required to be responsive directly to a Minister in their day-to-day operations. Some agencies were also looking to make improvements, for example to provide more consistent services with shorter waiting times.

The system

The Human Services portfolio was created partly in response to the Uhrig review of corporate governance of statutory authorities and office holders. Several service delivery agencies were moved under the new portfolio. These service delivery agencies included some that operated under the *Public Service Act 1999* and *Financial Management and Accountability Act 1997* and were previously parts of other departments, some that operated under the *Commonwealth Authorities and Companies Act 1997* as agencies within a broader portfolio, and some that operated as Government Business Enterprises relatively independently.

The heads of four of the service delivery agencies (Medicare Australia, Centrelink, Health Services Australia and Australian Hearing) now report directly to the Minister through the Secretary of DHS. The other two service delivery agencies, Child Support Agency and CRS Australia, are legally part of DHS and therefore report to the Secretary.

Prior to the creation of the department, two of the larger agencies (Centrelink and the former Health Insurance Commission, now Medicare Australia) were accountable to boards.

The portfolio's governance structure and operating systems are based on strong leadership on the basis of government objectives and frequent monitoring of performance against these objectives.

What was done

Change needed to be driven strongly across the portfolio, with leadership and an overarching framework provided by the portfolio department.

Regular meetings are held between the Minister, the Secretary and agency heads (including the General Managers of the Child Support Agency and CRS Australia) focusing on monitoring previously agreed key performance indicators, discussing the strategic directions of the portfolio and identifying any potential problems and what will be done to address them.

Similarly, agency heads meet bi-monthly or more frequently to discuss and resolve matters relating to all agencies in the Human Services portfolio. This meeting is chaired by the Secretary. Agency heads provide monthly reports on performance, including their financial, broader resource and service delivery objectives.

An 'escalation system' was established to help identify potential high-risk problems early and escalate them to higher levels of management for resolution before they get out of hand. For example, this escalation system has been applied to Centrelink's computer system which can potentially impact on hundreds of thousands of citizens.

The department also focused on improving client service across the portfolio. A range of initiatives was implemented including expansion and enhancement of services, improved technology, simpler forms, and effective client service collaboration between agencies. An example of this is the *myaccount* project, which uses technology to save time and effort for customers and which involved considerable work across Human Services agencies under the governance of the core department.

The focus on whole of government issues and improvement in provision of services prompted the development of the department's *myaccount* website where members of the public can sign-on to their Child Support Agency, Centrelink and Medicare accounts with a single username and password, providing greatly improved client service.

Monitoring

The department's governance model, which includes frequent and high-level lines of reporting, accountability and transparency, ensures that problems are identified and addressed early.

The department receives monthly reports from each of the Human Services agencies, outlining operational and financial performance against pre-determined goals and objectives.

All budget measures that are undertaken by the portfolio agencies are monitored by the department. As an example, the department and the Child Support Agency have worked closely with the Department of Families, Community Services and Indigenous Affairs and Centrelink in successfully implementing Stages 1 and 2 of the Child Support Scheme reforms that were announced in February 2006. Some of the changes implemented in Stages 1 and 2 included increasing minimum child support payments, reducing the income cap on high income earners, and customers having access to an external review mechanism of Child Support Agency decisions through the Social Security Appeals Tribunal. The core department is continuing to work closely with these agencies to implement the final and most complex stage of the reforms by 1 July 2008 which aims to more fairly share the cost of raising children between parents.

The department and the Child Support Agency are also working closely to implement the *Building a Better CSA* package of reforms announced in February 2006. These reforms will improve the experience that a parent has when dealing with the Child Support Agency.

The monthly reports are thoroughly analysed in preparation for a governance meeting held between the Secretary and each of the portfolio agency heads. Service delivery is reviewed and discussed at these governance meetings.

Similarly, the financial performance and position of the Human Services agencies are regularly analysed, providing important input to the governance meetings.

Benefits

The establishment of the new department and the co-ordinated arrangements for the new Human Services portfolio have ensured greater responsiveness to the Government and better integrated, consistent and more timely services for citizens.

The department has achieved economies of scale as well as clearer accountabilities by identifying and implementing more effective and efficient approaches across the portfolio as a whole as well as in all its separate parts.

Key messages

1. Strong and clear leadership is central to successfully bring together disparate services. Establishing good working relationships with portfolio agency heads is also essential.

2. When attempting to achieve widespread cultural change, including consolidation of very different entities, change needs to be clearly defined and decisively managed so that there is absolute clarity regarding expectations.

3. It is essential to have documented and well-understood protocols to quickly and precisely escalate notification of high-risk problems or potential problems, rather than waiting for a problem to arise before determining the processes that need to occur.

Department of Families, Community Services and Indigenous Affairs

How a large department (with a multi-billion dollar budget impacting on all Australians) dealt with cultural, governance and machinery of government issues through committed leadership and communication, sound accountability and reporting regimes, strong compliance systems and articulation of clear objectives and priorities.

The department

The Department of Families, Community Services and Indigenous Affairs (FaCSIA) is the Australian Government's principal source of advice on social policy and is responsible for about a quarter of the Government's budgetary outlays. FaCSIA works in partnership with other Government and non-government organisations in the management of a diverse range of programmes and services designed to support and improve the lives of Australians.

The department employs approximately 3 000 people, located in its national office and each state and territory, including rural and regional areas.

The challenge

FaCSIA has undergone two significant machinery of government changes in recent years. In 2004, some Department of Families and Community Services (FaCS) functions were moved to the Department of Employment and Workplace Relations and the Department of Human Services, but the department gained parts of other agencies including the Office of the Status of Women and the Aboriginal and Torres Strait Islander Commission. In 2006, the department needed to deal with bigger changes when the Indigenous functions of the former Department of Immigration and Multicultural and Indigenous Affairs moved to FaCS, creating FaCSIA.

In the past the department's various divisions or Groups operated as silos. Each Group approached financial management, project management, stakeholder relations etc. in a different way. Corporate functions were spread across the department. The machinery of government changes in 2004 emphasised the inadequacies of the existing structure and processes, and the risks they posed.

The Secretary decided that this situation had to change by shifting both the corporate/financial governance of the organisation, as well as the culture, to a 'One FaCS' (now 'One FaCSIA') approach.

The system

FaCSIA now operates with three Groups (Corporate Support, Business and Financial Services, and Information Management and Technology) responsible for all corporate functions. This includes a Chief Financial Officer, Chief Information Officer and a dedicated Corporate Strategy Branch. Although all SES are still accountable for their own areas of responsibility, the Corporate Strategy Branch drives and facilitates good governance across the whole department by strengthening the implementation, management and monitoring of, and reporting on, a range of corporate responsibilities.

This includes facilitating the implementation of the FaCSIA Strategic Framework 2006–09, Core Business Processes, risk management, business planning and continuity, project management, and coordination of project status reports and other cross-department reports.

Core Business Processes are being promoted to ensure that all areas of the department use the same systems and approaches for their work in policy development and advice; programme design and implementation; stakeholder management; issues management; governance and resource management; and whole of government participation and leadership. Core Business Processes ensure that this work is carried out in a consistent and streamlined way across the department, based on best practice already in place. Tools and resources have been developed to help staff apply Core Business Processes in their work.

What was done

The change was initiated at the highest level—by the Secretary. He recognised problems caused by the segmentation of the department and asked one of the Group Managers to drive the change agenda. The Group Manager was not involved in corporate responsibilities but had a strong interest and motivation for change (note that in FaCSIA, Group Managers are SES Band 2).

This led to both structural changes to the department, to ensure appropriate governance and accountability systems, as well as cultural/behavioural change strategies to align staff with the new systems.

Changes included:

- merging all the corporate responsibilities into one group, including a Chief Financial Officer (CFO), and appointing a Group Manager for Corporate who then took responsibility for the change agenda
- establishing clear accountability processes that had to be implemented consistently by all staff in all areas of the department
- developing guidance and training materials to support this
- creating a Corporate Strategy Branch to assist all managers meet their governance responsibilities and ensuring consistency across the department.

Because of the high risks FaCSIA carries in both financial terms and in service delivery—both very prominent in the public eye—the department went with a more directive compliance approach to ensure it met its immediate governance and accountability obligations. FaCSIA understood that changes in culture and behaviour happen more gradually, and could not afford to wait for this change to happen through a purely cooperative and collaborative approach.

The department's compliance systems were, however, strongly backed up by cultural change strategies. The key behavioural/cultural change strategy was to go back to basics to clarify: what is the department's purpose, what are the top priorities, what are the key responsibilities, what are the core values?

External consultants were engaged to facilitate a wide-ranging consultation process with staff, key stakeholders (including the Minister) and the public. A travelling road-show and focus groups engaged people in the process, identified commonalities and spread the word about the 'One FaCSIA' approach.

The resulting core values, priority business results and responsibilities are printed on a business-sized card which all staff can carry with them for reference or to hand out to stakeholders. This ensures that no FaCSIA staff can be unaware of the department's responsibilities and who and what they are accountable for.

The Secretary spoke to all staff on a regular basis about the change, why it was important and how they could contribute. Senior managers were also required to promote the message clearly and consistently.

So that all newcomers to the department receive the same message, the 'One-FaCSIA' approach and strategic framework forms the core of the induction programme.

Monitoring

Like many other large departments, FaCSIA has established standing committees that oversee various aspects of governance. The Executive Management Group (EMG) consists of the Secretary, Associate Secretary, Deputy Secretaries, CFO and Group Manager Corporate Support. Sub-committees develop and provide recommendations for consideration by EMG in areas such as ethics, IT, Indigenous policy, programme management, people management, and research and evaluation.

Two senior FaCSIA committees, the Remuneration Committee and the Risk Assessment and Audit Committee, report directly to the Secretary.

The committees incorporate systems of review and monitoring to ensure the policy of consistent operations and core business processes is implemented and effective across the department.

The executive regularly assesses the effectiveness of the integration of new functions and staff and the soundness of earlier decisions.

For example, this approach quickly identified that an earlier decision on timing following the merger of Indigenous Affairs needed to be revisited. At the time of the merger, there were over 30 separate regional offices representing both Indigenous and 'Family and Community' services. As it happened, it was 10 months before the individual managers for each state and territory were appointed and the offices amalgamated. The department's regional profile is a large part of its public image, and as a result of the delay, stakeholders may not have seen clear evidence of the merger in the services provided. Consequently, the department now believes that any future amalgamation of offices representing the department's 'public face' should be accomplished as quickly as possible.

Benefits

FaCSIA believes the Minister, its stakeholders, staff and the public now have much greater clarity about what the department's objectives are, what the priorities are, and who is responsible and accountable for what.

Further, if and when future machinery of government changes happen, FaCSIA will be ready. The department has systems in place to ensure that new functions and new staff are merged quickly into the organisation rather than operating as if they were separate entities.

FaCSIA makes the point that private multi-billion dollar agencies making significant structural changes generally provide plenty of notice to their staff, stakeholders and wider public and implement change over time within a well-planned and rehearsed strategy. Similar-sized and financially responsible public service agencies don't always have that luxury—machinery of government changes can be announced one day and implemented the next. That makes it particularly important to be well prepared.

Another benefit is that the department's governance systems are much stronger, more robust and clearly understood. This significantly lowers risks and increases responsiveness to the Government and the public.

Key messages

1. When dealing with machinery of government changes, integrate financial, IT and other corporate functions first and as quickly as possible. This is often the initial driver in bringing new staff into the department's culture.

2. Think carefully about how to prioritise implementing changes after a machinery of government change. Don't always do the easiest things first. In hindsight for FaCSIA, the merger of regional networks should have occurred earlier.

3. Another area that is important to address early is the development of consistent performance measures that are relevant across the whole organisation so that timely and meaningful comparisons can be made.

4. Changing culture takes time; in the meantime make sure you implement effective compliance measures and systems earlier to reduce governance risks. Strong compliance systems in themselves are a driver of cultural change.

Department of Foreign Affairs and Trade

Moving back to a centralised staffing system—why the Department of Foreign Affairs and Trade moved away from a devolved approach and, in order to meet the department's specific needs, established a centrally-controlled staff placement and performance management system. The new system demonstrates strong leadership, consistency, transparency and accountability.

The department

The aim of the Department of Foreign Affairs and Trade (DFAT) is to advance the interests of Australia and Australians internationally. The department's goals are to enhance Australia's security; contribute to growth in Australia's economy, employment and standard of living; assist Australian travellers and Australians overseas; strengthen global cooperation in ways that advance Australia's interests; foster public understanding of Australia's foreign and trade policy and project a positive image of Australia internationally; and manage the Commonwealth's overseas-owned estate.

The department's work is carried out by more than 3 400 people employed in Canberra, in state and territory offices and in a network of overseas posts.

The challenge

In the late 1990s, several factors combined to prompt DFAT to change the way it handled placements of existing staff within the department and overseas. In 1998, the department had to manage significant funding cuts and an associated reduction of around 150 staff.

The department also had an inconsistent and, staff were saying, inequitable system for giving staff opportunities to develop their skills and experience by moving to other positions both within the department and to overseas postings. Division heads made most decisions about staff mobility so that staff applications for a move were usually determined largely on the opinion of one or perhaps two senior managers to whom they reported.

As a result of division heads picking the 'best and brightest' staff returning from overseas posts, DFAT also found that the devolved system left a pool of staff, paid centrally, who were not in high demand and who were not attached to any specific programme. At the same time, some critical areas were under-resourced.

Finally, some work areas had developed a reputation for being 'sexy' and high profile and attracted the most talented staff while other work areas had difficulty attracting good quality staff.

This situation resulted in uneven staff resourcing of both quantity and quality across divisions and across the department. It was also incompatible with any effective strategy to reduce staff numbers while continuing to meet the Government objectives.

The system

In DFAT, the Corporate Management Division (CMD) is now essentially responsible for the placement of all existing Australia-based DFAT staff into internal (including overseas post) vacancies. When divisions or posts have vacancies, they must be submitted to CMD which then arranges for the vacancies to be advertised in administrative circulars.

CMD operates placement advisory committees that meet to consider vacancies and applicants. For placements within Australia, the committees meet approximately every six to eight weeks. For postings overseas, the committees meet twice yearly. Where necessary, committees also meet on an ad hoc basis.

The placement advisory committees consist of staff selected from across the department by CMD on the basis of their experience and skills. One member is from CMD to ensure the process is robust.

Selection and placement decisions are based on operational requirements and the placements/posting preferences of staff. Each division is required to take an even share of staff needing placement. The department no longer has a pool of staff not attributed to a programme.

Another advantage of the centralised system is that it allows the department to respond more effectively to surges in activity or sudden crises. The department can now deploy staff more quickly and more strategically to deal with increased workloads.

CMD also controls the staffing budget allocated to each division. Previously, divisions could use unspent salaries funds for operating expenses. Now divisions have control of administrative and programme budgets, but not their staffing budget.

The introduction of a more robust staff performance management system helped to underpin the success of the centralised staffing system.

Previously, performance ratings were decided entirely by managers. There was no moderating system used across divisions or the department. As a result, 85 per cent of staff were rated as superior or outstanding, rendering ratings meaningless as guides to comparative performance.

DFAT introduced a performance management system which is designed to ensure consistency of approach and fairness through the use of a moderating tool (at present 10 per cent outstanding, 25 per cent superior, with the remaining staff assessed as fully effective, effective or unsatisfactory). It is applied not only across the department but across divisions and broadbands. Because it is applied equally across all divisions, there are no longer 'sexy' or high-profile divisions. All divisions now provide staff the opportunity to 'shine' and be rewarded. For example, corporate divisions which previously had difficulty attracting talented staff now offer staff opportunities to gain experience and move upwards.

In addition, placement advisory committees use performance ratings to help assess the merit of applicants. Ensuring that performance ratings and referee reports are consistent with each other is a useful mechanism of quality control.

What was done

In 1998 the Secretary had a vision for a more effective, efficient, accountable and equitable staffing system within the department.

The new approach was developed by CMD in consultation with the senior executive. The system works because it has consistent support from the Secretary and the senior executive.

Monitoring

DFAT considers that the system is effectively reviewed by staff each time DFAT's Collective Agreement (CA) is renegotiated. Minor modifications to the performance management system, for example, have occurred as a result of CA processes.

There is also an established system of regular reporting to both DFAT's senior executive (quarterly) and division heads (fortnightly) on the operation and outcomes of staff selection processes.

Benefits

The centralised system may not be an effective approach for all agencies, but it meets DFAT's key needs. One of these needs is characteristic of only a few APS agencies, that is, the ability to deal with staff coming back from overseas postings and an equitable system of giving staff the opportunity to work in posts.

However, DFAT's other key needs are shared by other departments:

- the capacity to live within its budget
- an effective system for ensuring the quantity and quality of staff are evenly spread. DFAT's divisions have an even share of both talented staff and staff needing further development.

DFAT believes that staff have much more confidence in the current system and that it results in just and equitable outcomes. No longer do one or two managers 'control a person's fate'. Opportunities in the department are based on fairly applied and consistent performance-based measures.

In summary, DFAT believes the centralised staffing system is more open, accountable and effective in meeting its needs.

Key messages

1. A basic and essential requirement is a sound information management system. It is essential to know exactly how many staff you have, their level and where they are at any time. DFAT believes that without such a system their particular staffing arrangements would be unsuccessful.

2. A staff placement system, supported by a strong, consistently applied performance management approach across the department, can address perceived problems such as inconsistency and inequality of development opportunities and staff placement, popular and less popular divisions and placement of returning overseas staff.

3. Corporate management divisions must have the highest reputation in terms of integrity and impartiality. Otherwise staff, division heads and senior executives will not trust and support the system.

4. There must be undiluted support from the top. Information management, performance management and staff placement systems cannot work without the full support of the senior executive and the ability of appropriate senior management committees to operate with authority on a day-to-day basis.

Department of Veterans' Affairs

How a department successfully managed the transition to a new organisational structure through the establishment and implementation of strong governance and risk management arrangements. Of particular importance was the department's focus on leadership, strengthened accountability arrangements, a streamlined committee structure and consistent attention to identifying possible exposure to risk.

The department

The Department of Veterans' Affairs (DVA) is responsible for carrying out Government policy and implementing programmes to fulfil Australia's obligations to veterans and their dependants as well as providing a compensation claims management service to serving and former members of the Australian Defence Force.

The department has 2 400 staff located in the central office in Canberra and in each state capital.

The challenge

The department provides a range of entitlements and services to veterans and war widows of the two world wars through to serving and former members of the Australian Defence Force. Over time, the needs of DVA clients have changed, as has the geographical spread and concentration of veterans. The decline in numbers of World War II veterans has resulted in a significant reduction in departmental funding.

As a result, in late 2004, DVA's leadership took action to ensure that the department could continue to provide quality services to all veterans while facing the challenge to become smaller, more responsive and better integrated.

The system

In 2005, under the banner of *oneDVA*, the department's premier governance committee, Executive Management Group (EMG), adopted a new organisational structure which includes:

- the grouping of similar activities into five business groups with a national perspective
- a stronger business-oriented management approach, which focuses on integration by business functions rather than geographical location, and strengthened accountability relationships across the department to ensure appropriate business outcomes
- a new, streamlined governance structure.

The restructure allowed the department to maintain a strong presence in each state and protect the level of service to veterans, while managing risk and reducing processing time. High quality business partnerships with providers had to be maintained and a national approach to simplifying and standardising procedures adopted, along with an integrated IT system. Increased flexibility and encouragement of cross-department teamwork was also important.

The new governance structure comprises two key committees (Executive Management Group and Audit Committee) supported by four functional committees.

The revised and streamlined governance structure aims to:

- be representative of business functions
- ensure correct and appropriate information is escalated to, and considered by, the right people
- reduce overlap between committees and reporting on the same issues
- make membership of committees less burdensome
- ensure each governance committee identifies, manages and monitors key risks according to its charter.

As the system has matured, it has positioned the department better to react and respond to business process issues.

What was done

In 2004, the EMG established a working group to oversee a review of DVA's Service Delivery Arrangements. This group met monthly and was chaired at the Deputy Secretary-equivalent level (SES Band 3). It reported regularly on progress to EMG which provided overall direction and decision making.

The working group was asked to develop a broad overview of the department's business and provide options and strategies for future service delivery in the light of the expected decline in workload and thus funding. The working group analysed the department's key competencies and business functions and, following a series of workshops at different levels within the organisation, the new organisational structure emerged.

A number of 'hot spots' that could present significant risk to implementation of the new structure were identified. These included: the need to develop an effective change management and workforce strategy; possible disruption to client service; non-alignment of IT to business reforms; and future planning.

The department recognised that dealing with these problems could also involve risks so a delicate balance was required. DVA needed to reduce costs while maintaining a viable, committed workforce, including remaining an employer of choice and continuing to attract new staff. Above all, the department needed to maintain the integrity of its processes.

Early in the planning stage, the department identified and established key initiatives to ensure successful implementation of the changes. These included:

- a comprehensive consultation and communication strategy driven by the Secretary
- a phased approach, involving 'demonstration projects', to provide learning from experience and including risk assessment as an integral part of the process
- commitment to developing a detailed implementation plan, timetable, change management strategy and workforce strategy
- arrangements for ongoing governance.

A crucial part of the implementation process was establishing a new Business Integrity Division following the implementation model developed by the working group. This model involved outlining roles, responsibilities and objectives and included a risk assessment process. The Business Integrity Division provides a whole-of-organisation framework to ensure that DVA complies with all legislation, regulations, policy and procedures and identifies and manages exposure to risk, while ensuring a seamless transition to *oneDVA* without compromising the underlying integrity and compliance of activities carried out by the department.

Following the successful implementation of the three demonstration projects (for example the creation of the new Business Integrity Division), other business functions were integrated into the new structure. This phased approach allowed time for potential and real problems to be identified and resolved before the new structure was bedded down. It also allowed full implementation to be timed to fit with the budget and business planning cycle.

Monitoring

The new *oneDVA* structure requires rigorous attention to planning and risk management at all stages of departmental activity, especially while going through the change process. In particular, all committees monitor key risks in matters for which they are responsible.

Throughout the transition to the new organisational structure, staff surveys and staff feedback sessions encouraged comment and suggestions from staff, including directly to the Secretary. Staff feedback was relayed to senior management forums for consideration and action.

The demonstration projects were specifically designed to identify problems and successes which could be replicated, amended or discarded as appropriate. Lessons learned are applied to ongoing change in the department.

Benefits

Careful forward planning and strategic oversight at a high level ensured that the transition to *oneDVA* was relatively smooth and achieved with minimal disruption to clients. Successful implementation of the new structure enhanced departmental cohesion and highlighted the level of commitment, cooperation, trust and openness which DVA staff bring to their work.

Feedback from all stakeholders has been positive and there are demonstrable improvements to the department's service delivery, financial management and strategic direction.

The *oneDVA* strategy has laid the foundation for both immediate and longer-term business and service delivery improvements.

Key messages

1. Development, maintenance and enhancement of a strong risk management culture can greatly assist business improvement.
2. Adherence to good governance processes allows an organisation to effectively manage radical change, and ensures that strategic decision-making can co-exist with effective day-to-day operational management.
3. An effective, flexible, integrated organisational structure can promote improved client service and enhanced ability to manage ongoing change.

Department of Industry, Tourism and Resources—case study one

How a diverse department with critical stakeholder relations successfully integrates measurement, monitoring and review of stakeholder satisfaction into its departmental governance framework. The department achieves this by paying close attention to identifying possible risks and implementing good reporting, analysis, compliance and accountability systems to ensure that it meets its statutory obligations and business objectives.

The department

The Department of Industry, Tourism and Resources (DITR) aims to foster the increased prosperity of all Australians through internationally competitive and sustainable business in the local and the growing global environments.

The department does this through:

- enhancing the development of internationally competitive and sustainable business through excellence in policy formulation and implementation
- excelling in business programme design and service delivery
- remaining a respected source of knowledge through its understanding of the business environment and business networks.

The department has around 2 000 staff in its central office in Canberra, state capital cities and some regional centres.

The challenge

In October 2001 the department conducted its first stakeholder satisfaction survey. The decision to undertake a survey came about due to the need to judge whether the department was making appropriate use of resources in delivering its business outcomes.

This first survey was designed to align with the department's outcomes/outputs framework; to help the department meet its obligation to report on stakeholder and customer satisfaction; and to assist in the development of a client service charter.

The department does not have a monopoly on the provision of industry policy and programme implementation, which was one of the reasons for the decision to develop the survey. Departmental staff needed to be fully aware of their successes but also any circumstances in which the department's performance could be improved. In this context, an issue of significant importance to the department was the need to address the risk to the department's reputation as an industry player of integrity and probity.

The system

The department's stakeholder satisfaction surveys obtain views about how well the organisation is performing in a range of areas, particularly relating to policy development, programme implementation, and staff service. The surveys also identify opportunities for improving the department's relationship with key stakeholders.

Stakeholders surveyed include industry peak bodies, professional associations, state government departments, local government bodies, academic researchers, and business leaders.

Measurement of stakeholder satisfaction is an integral part of the business of the department. The Strategy and Communications Branch within the Corporate Division manages the surveys and is also responsible for business planning and overall governance issues in the department. If a survey shows a deficiency in a particular area, the branch will provide a report to senior management, but will also alert the division to a possible risk area which needs attention, and provide support and advice if appropriate.

What was done

The department's highest level governance committee, the Executive Committee (comprising the Secretary and three Deputy Secretaries), made the decision to implement the *DITR Stakeholder Survey* in 2001.

The department's surveys have all been conducted by independent research consultants, selected following open tender processes—with contracts generally running for two survey years. The Strategy and Communications Branch has managed the activity in this way to ensure that a professional and independent approach is followed and, through retesting the market every two years, ensuring that value for money is achieved.

In addition to conducting the survey and reporting on results, the consultants have also been responsible for designing the survey instrument, incorporating draft questions developed by Strategy and Communications Branch in consultation with all divisions. The core questions have remained largely the same since 2001 to ensure reliable longitudinal analysis and identification of trends over time.

A total pool of 1 600 stakeholders is identified by divisions each year. From these, the consultant randomly selects a sample of about 600. Each division is set a quota of stakeholders to ensure statistical reliability. Only stakeholders who have been in contact with the department during the previous 12 months are contacted to take part in the survey.

Information included in the stakeholder list allows the identification of the specific division and sub-activity relevant to the stakeholder. This facilitates focused responses to questions and allows divisions to identify and deal with possible areas of poor performance or risk.

All of the 1 600 stakeholders in the pool are contacted by formal letter (via email) advising that the survey is being undertaken and seeking their cooperation if contacted by the consultant. This initial contact assists in the achievement of a final 80–90 per cent response rate.

Surveys are conducted via telephone interview which typically take about 15 minutes. Stakeholder response to the survey is voluntary. The department insists that if multiple people in an organisation are interviewed, the consultant ensures that the same interviewer speaks to them all.

The department requires the consultant to provide reports containing data and analysis at a departmental and divisional level, with comparative analysis of trends from previous years. The survey results are provided to the Executive Committee and all divisions so that planning or follow up action may be taken. In addition, a summary of key survey outcomes (at the departmental level) is provided to all 1 600 pool stakeholders.

DITR has also reviewed, streamlined and refocused its committee structure, resulting in a governance framework where the principal decision-making body is the Executive Committee, which comprises the Secretary and Deputy Secretaries. The Executive Committee meets each week to make key decisions, review risks and set strategic directions. To assist the Executive Committee's decision making, the department has also established three key committees to focus on specific areas of organisational management: Audit, Strategic IT, and Security. There is also a variety of consultative committees at the divisional and cross-divisional level.

Monitoring

The survey process itself is a review of performance and the outcomes are closely monitored based on internal and external feedback.

While the results of the first survey were used to develop the department's Client Service Charter, subsequent results will be used to inform a review of the charter in 2007–08.

While the survey has generally been undertaken on an annual basis, in 2004 the department piloted a biannual survey approach to enable a more rapid response to any emerging concerns identified by stakeholders. This biannual pilot was not continued in subsequent years, partly because no new issues were identified, but also to reduce the imposition on stakeholders. Over the years, the executive and divisions have provided feedback to Strategy and Communications Branch requesting improvements to documentation of the survey. They also requested a change to timing, since the survey was initially conducted during the Budget process. Similarly, stakeholders requested a change to the timing of the survey to better match their business processes.

Each year the survey methodology is reviewed to ensure that it reflects departmental requirements. However, due to the need to benchmark information over time, questions and methodology have remained largely the same since the first survey. The major exception is the inclusion in 2007 of a small number of division specific questions.

A more formal internal review of the process may be undertaken at the end of the 2007–08 financial year to determine whether the department's needs are being met effectively through the current approach.

Benefits

The survey results provide:

- Executive Committee with valuable information about high risk pressure points in the department
- divisions with information or tools they need to build improvements into their business plans
- the department with feedback to assist staff in enhancing their dealings with stakeholders and customers.

The survey process, and the results produced, assist the department to meet statutory obligations and business outcomes. As a result, the survey is considered to be a valuable component of the department's business and governance improvement process.

Key messages

1. Surveying stakeholder perceptions of departmental performance provides information which encourages improved business outcomes and enhanced service delivery.
2. A stakeholder survey should only be considered if you are serious about building the survey into the department's business planning and delivery framework.
3. Management of a stakeholder survey is best located in the same business area that has responsibility for other strategic and governance matters so that any necessary remediation can be dealt with immediately.

Department of Industry, Tourism and Resources—case study two

How a large and diverse department undertook a thorough review of its corporate governance to assess, define and identify the effectiveness and transparency of the department and its operations.

The department

The Department of Industry, Tourism and Resources (DITR) aims to foster the increased prosperity of all Australians through internationally competitive and sustainable business in the local and the growing global environments.

The department does this through:

- enhancing the development of internationally competitive and sustainable business through excellence in policy formulation and implementation
- excelling in business programme design and service delivery
- remaining a respected source of knowledge through its understanding of the business environment and business networks.

The department has around 2 000 staff in its central office in Canberra, state capital cities and some regional centres.

The challenge

A clear and accountable corporate governance framework is vital to the department's continuing efficient operation. The department has a strong and comprehensive governance framework including:

- key committees and information sharing forums (Executive, ICT, security, audit, portfolio managers, executive officers, strategic research, etc.)
- a performance measurement system
- an annual key stakeholders satisfaction survey (see separate case study)
- a strategic risk management system.

This framework has evolved over the years, adapting over time to meet changing needs. However, it was timely to undertake a review of corporate governance to identify areas of potential improvement, examine implications for future governance arrangements, and consider how the review findings could be used to improve the department's approach to achieving its business goals.

The system

An external audit firm was commissioned to review the department to assess how its governance arrangements contributed to its overall performance and the delivery of its goods, services and programmes.

The review also sought to ensure the department's governance meets the requirements of the law, regulations, published standards and community expectations of probity, accountability and openness.

The audit reviewed the department's governance arrangements against current better practice and in particular the framework recommended in the ANAO *Better Practice Guide for Public Sector Governance*.

Specifically, the following areas were reviewed:

- leadership, ethics and culture
- stakeholder relationships (internal and external)
- risk management
- internal conformance and accountability
- planning and performance monitoring
- external conformance and accountability
- information and decision support
- the review and evaluation of governance arrangements.

What was done

The audit report made a number of key findings. On the positive side, it listed the department's strengths as follows:

- having in place all the key components of corporate governance
- the 'tone at the top' as set by the Secretary was considered extremely positive, with a demonstrated commitment to high ethical standards, regular promotion of the APS Values and Code of Conduct, removal of 'red tape' and clearly delegating responsibility in a manner that allows managers to manage
- the Secretary set a strong and consistent tone for holding to account the department's senior managers and staff through his personal actions and influence as well as through departmental policies
- the importance of accountability was found in numerous departmental documents, emphasising the importance of clear roles and responsibilities for all staff
- there were clear linkages between the strategic plan, business plans and operational/work plans
- there was an extensive range of controls in place in the department.

The areas on which the audit recommended the department could concentrate, and the actions the department has taken in response, are outlined below.

Overarching communication: The review suggested the department consider ways to better articulate and communicate the corporate governance arrangements while maintaining flexibility and responsive decision making.

The department has developed a framework for implementing a better communication strategy. Information on governance has also been included in the orientation programme for all new starters as well as the Middle Management Development Programme.

Committee roles and reviews: The review found there was limited understanding of what committees formed the governance structure, and the roles and responsibilities of some of the committees. Similarly, there were differing views on the contribution to corporate governance of the some of the committees. The department has since refocused some of its committees and better articulated their roles on the department's intranet and in relevant training packages. Documentation formalising the governance structure has also been placed on the intranet.

The review also found that corporate governance arrangements had tended to be reviewed only as either part of a formal audit programme or when membership of committees changed, particularly the chair. The department has initiated regular reviews of the role and performance of its corporate governance committees as part of a planned and coordinated approach.

Strategic direction linked to strategic risks: Another finding was that the department's strategic direction was not clearly linked to the strategic risks that it faced in achieving its objectives. The review recommended that, as part of the department's annual strategic planning and budgeting process, the Executive Committee should develop a Strategic Risk Assessment based on the key risks derived from its Strategic Plan.

This issue has largely been addressed, via the development of a departmental Strategic Risk Framework which has been incorporated into all divisional and work unit plans and reporting frameworks.

Sharing operational and business knowledge: The review found that many of the senior managers interviewed were concerned that the management and operational information held within individual divisions and by individuals, particularly by some senior managers, was not used or could not be accessed by other divisions or individuals due to lack of knowledge, absence of opportunities to share the knowledge, or simply being too busy.

Information-sharing forums are now regularly scheduled for senior managers.

Comprehensive, multi-directional information channels: Another ongoing issue for most agencies is how to effectively move information and knowledge around a diverse agency, particularly with heavy reliance on division heads as the prime channel of communication up and down the organisation. The review recommended alternative channels needed to be developed or enhanced in order to ensure better two way communication.

A number of communication activities have been, or continue to be, implemented and enhanced. In addition, business planning meetings are scheduled with all SES and the Secretary. The Secretary (and/or Deputy Secretaries) attends all orientation and middle manager training courses.

Integrated risk management systems and planning frameworks: The department's large range of plans also highlighted a weakness: the plans were not risk-based, they had been developed independently of each other, and there was no overall integration into a comprehensive strategic planning framework.

A new business planning framework has been implemented. This framework integrates strategic priorities, resource allocation, risk management and reporting into a structured framework which also flows down into individual performance planning and reporting.

Formal, consistent risk management processes: The review concluded that risk management needed to be better embedded in the department and a sustained commitment from the top would be needed to ensure that a risk management culture existed at all levels in the organisation. There was an imbalance between intuitive and formal risk management, with personal preferences rather than corporate protocols sometimes being followed, making it difficult to establish accountability.

The department's current approach to risk management has been refocused to engage senior managers in the process of embedding an effective risk culture into the department, and to encourage a more systematic approach to risk management.

The department has dedicated additional resources and established a new Risk Management Section. A Work Unit Plan has been established and a number of key documents have been upgraded. Further, the Executive Committee and Internal Audit Committee have agreed to new procedures as part of the business planning process to embed an effective risk culture within the department.

Monitoring

The department will continue to monitor and improve those aspects of governance highlighted in the review. In particular, it will continue to monitor and review its internal governance committee structure to ensure that the commitees' roles and performance remain aligned with departmental objectives.

Benefits

The corporate governance review will ensure the robustness that is a feature of the department's governance strategy continues to be the foundation of its success. The department undertook the review knowing it had a good system, but knowing also there was room for improvement. It recognised that it needed to better align some of the structures and processes which had been developed over time.

Key messages

1. Review corporate governance to highlight things you could do better (rather than highlighting things you are not doing well). By doing things better, you will be doing things differently and this may well take adjustment on the part of staff and on the part of those who deal with staff.

2. An overwhelming factor in any corporate governance framework is the tone from the top. Commitment to leadership, ethics and culture is a critically important element of corporate governance. Another critical element of a robust and comprehensive corporate governance process is that the framework is led by—and inclusive of—the very top levels of leadership in the department. The Secretary and the Deputy Secretaries are the drivers and their active participation is essential to its successful operation.

Department of Immigration and Citizenship

How a department developed and implemented a governance committee focusing on values and standards to improve departmental processes and performance, through strong leadership and effective communication, and by applying sound accountability, reporting and compliance systems. Identification of possible risks and paying attention to issues of integrity were also important.

The department

The Department of Immigration and Citizenship (DIAC) delivers the Australian Government's migration, refugee, humanitarian, citizenship, multicultural affairs, settlement, immigration compliance, and immigration detention programmes. DIAC's purpose is to 'enrich Australia through the well managed entry and settlement of people'.

The department has about 7 000 staff located in Australia and overseas, including about 850 locally engaged staff.

The challenge

Late in 2005, the Palmer and Comrie reports into the former Department of Immigration and Multicultural and Indigenous Affairs' handling of specific immigration matters highlighted problems with the department's performance in client service, accountability and leadership. To address these issues, the new Secretary decided to revise the department's governance framework and culture. As part of this large change, the department set up a number of new governance committees to strengthen accountability and decision making, and manage particular areas of risk to the department.

One of the first governance committees to meet in December 2005 was the Values and Standards Committee. This committee was established to address key elements of the findings of the Palmer and Comrie reports. It was required to engage actively with key stakeholders and ensure that staff were trained to do the work expected of them. It was also asked to consider the department's understanding and application of the APS Values, especially in the areas of accountability, leadership, ethics, integrity and the public perception of the department's work in those areas.

The Values and Standards Committee is one of five governance committees that report to the key senior advisory committee, Executive Committee (EC). EC is supported by a Corporate Leadership Group. Other committees reporting to the EC include the Department Audit Committee, People Management Committee, Systems Committee and DIAC Performance Management Committee.

The work of the DIAC Performance Management Committee (DPMC) provides an example of how the governance structure is helping to improve and manage the quality and consistency of the department's performance. DPMC is responsible for establishing service standards and strategies, monitoring service delivery performance, and ensuring best practice is identified and replicated. This committee is supported by Performance Management

Boards in each of the policy and programme divisions, ensuring that all areas of the department contribute to the performance management system.

Large and complex departments such as DIAC are always challenged by the need to balance investment with available resources, and this is a major focus of the restructured department—balancing cultural, financial and risk management aspects of its operations.

The system

The Values and Standards Committee operates at a strategic level, is open and accountable, and assists the department to meet community expectations. It has strong support from the Secretary and senior executive.

To ensure depth and value regarding ethics and whole of government understanding as well as a broader range of experience and an independent view, the committee includes four external members: the Deputy Public Service Commissioner; the Deputy Commonwealth Ombudsman; and two community members such as an ex-departmental retiree and a former Integrity Commissioner at the Australian Taxation Office/former Deputy Public Service Commissioner.

The committee is chaired by a Deputy Secretary and the internal members represent state, territory, overseas and national office interests. National office participants reflect areas of particular interest for example training, client services and compliance.

The Values and Standards Committee is required to meet quarterly, but actually meets every couple of months due to the amount of work it needs to deal with.

It can commission reports from other areas of the department and ask for a review of a policy or work programme.

What was done

The Values and Standards Committee has an advisory role and makes recommendations to business units on issues including training, departmental processes and policy review, development and implementation. These recommendations are passed to the relevant business area by the secretariat (sometimes under the authority of the Chair) and in most cases are adopted by business areas.

The committee follows up on the suggestions and advice it has provided and expects to receive feedback on progress, changes and successful implementation.

In addition to the committee, the department took the significant step of establishing a Values and Standards Branch specifically responsible for providing secretariat support to, and undertaking projects on behalf of, the committee. The secretariat also adds value by contributing to content, injecting a departmental view, and actively managing the external members. It meets with all members individually to discuss and explore suggestions for better outcomes for the committee, and ensure that the committee meets all of its reporting requirements.

The branch also acts as a conduit between departmental business areas and the committee. It is now taking responsibility for other departmental issues such as administration of the newly developed staff attitudinal survey.

Importantly, the Values and Standards Branch was established to help drive the implementation of a new departmental culture. It supervised the development of an initiative designed to deal with deficiencies in leadership identified by the Palmer and Comrie reports. The IDEAL Programme (Immigration Dilemmas: Ethics, APS Values and Leadership) has the strong support of the Secretary, complements basic departmental training and encourages dialogue between leaders and their teams to develop appropriate, values-based responses to ethical dilemmas.

The Values and Standards Branch provides regular progress reports on IDEAL to the committee, and committee members are involved in and make suggestions about most aspects of the programme including content, methodology and evaluation.

After each meeting, the committee provides draft minutes and a summary of activities to EC (as the department's key senior advisory committee). In accordance with the Chief Executive Instructions and its own terms of reference, the committee reports to the Secretary every six months on issues such as its general operation; risks facing the department regarding values; and the committee's future programme. The Minister also receives updates on significant projects (for example, IDEAL) undertaken as a result of committee recommendations.

The Values and Standards Branch has developed a comprehensive communications plan designed to ensure that all key stakeholders are informed of matters relating to the operations and requirements of the committee. The plan includes actions required of the Values and Standards Branch to support the committee in its governance role, timing, targets, and risk mitigation strategies.

Monitoring

Part of the challenge and monitoring task for all departments is always to ensure that decisions are taken on a sound financial basis, and DIAC is no exception.

Following the Palmer and Comrie reports, the department as a whole is committed to regularly reviewing its governance arrangements. Each governance committee is responsible for monitoring the areas of risk for which it has responsibility, and for determining broad directions and strategies for dealing with those risks.

The Values and Standards Committee regularly monitors staff attitudes, behaviour and complaint handling consistent with the APS Values. It provides advice on policy and procedures and has specifically assisted the department in the development of improved systems for collecting and analysing complaint information. This review process and information system constitutes a useful form of 'early warning alert' for the department's strategic planning processes.

The terms of reference of the Values and Standards Committee require the Secretary to initiate a review of the charter, membership and performance of the committee at least once every two years.

In January 2007, the department commissioned an external review of its governance arrangements. The review concluded in May 2007 and its outcomes are being progressively implemented. Among other things the review examined the department's governance committee structure, whether governance was well understood in the department and whether this knowledge was being translated into appropriate behaviours, including consultation and communication across the department.

Benefits

The Values and Standards Committee is considered an exemplar committee within the department and it attempts to model best practice. The committee has helped to institutionalise the department's new approaches to leadership and values consistent with the APS Values and Code of Conduct. Its external members provide an important 'outside' perspective. It has also helped to enhance a more positive and client-focused culture and ensured that training activities are aligned with APS Values.

The committee has identified areas of duplication in the department and has advised how to draw together disparate activities and better integrate them into departmental programmes. For example, prior to 2005, several different branches of the department dealt with complaints handling. This committee identified the problem and the department has now adopted a software system which monitors, tracks and coordinates complaints handling for the entire department. As a result, the department is moving to a much better client service regime.

The committee takes a broad portfolio-wide overview of activities, and feeds the information it gains back into the department. Because of this, it has an important coordination and linking role, and can promote departmental cohesion in matters such as departmental integrity and quality client service.

Key messages

1. Leadership, support and enthusiasm from the Secretary greatly assist in promoting and achieving cultural change in a department.

2. A dedicated branch to manage governance issues provides both appropriate staff resource to achieve outcomes, and the message that the issues are important to the Executive.

3. External members (Government and/or non-government) can add depth, value and an outsider's perspective to governance committees.

4. To obtain early warning of problems you need to develop quality information systems and appropriate systems for monitoring performance and conformance issues.

5. Evaluation needs to form part of any approach to governance.

Department of Transport and Regional Services

How a department communicates information to strengthen and consolidate its governance structure and processes, assisted by strong leadership and the establishment of a unit with specific responsibility for managing governance issues.

The department

The Department of Transport and Regional Services (DOTARS) is at the centre of the Government's agenda for Australian transport and regional issues. It supports the Government in fostering an efficient, sustainable and competitive, safe and secure transport system, as well as assisting regions to manage their own futures.

DOTARS has a workforce of approximately 1 300 with employees located in the central office in Canberra as well as offices in the regions, states and territories.

The challenge

Prior to 2005, governance functions were located in corporate areas throughout the department. Following a review of these arrangements, the Secretary established a separate unit, the Governance Centre, reporting directly to him. The Governance Centre was given responsibility for improving accountability, decision making and other business processes.

The Centre was created in response to various highly-publicised examples of poor governance in private and public sector organisations in Australia and elsewhere. The Secretary wanted to ensure that the department was appropriately directed, controlled and accountable; demonstrating performance against planned objectives; and conforming to legislative requirements.

The key initial challenge for the Governance Centre has been to engender ongoing awareness of the need for appropriate governance arrangements throughout the department through regular communication with all staff. The centre also provides advice, systems and support to assist all staff in ensuring governance principles and policies are applied.

The system

To achieve greater awareness of governance, the centre developed a communication strategy to strengthen staff knowledge and understanding of these issues and to highlight how failures in governance systems can adversely affect organisations.

The communication strategy included a number of innovative and creative ideas for attracting the attention of staff, as well as using already established departmental communication tools.

What was done

The Governance Centre has a separate link on the department's intranet site, and uses this extensively to communicate and make information accessible to staff, as well as providing links to other important websites.

A quarterly newsletter, called *Governance Matters,* is also made available on the intranet and produced in small numbers in coloured hard copy for limited distribution to each division's executive area. This is also provided to all new DOTARS employees during presentations by the Governance Centre to induction courses.

The newsletter contains general information about internal and APS governance issues, as well as a front page feature article on a matter of particular or timely importance. For example, the April 2007 issue dealt with the financial management and accountability framework *Certificate of Compliance*. On publication day, the intranet displays a news item about the publication of the newsletter. This generally prompts considerable contact from employees regarding the content of articles, indicating a positive staff perception of the newsletter's quality and usefulness.

The department has a series of internally-developed screensavers and the Governance Centre has created a number of attention-seeking, creative examples which flash governance messages for around 30 seconds at a time. Focussing on areas of risk (for example delegation or certification issues), they engage staff by posing questions to employees about whether they are fulfilling their legislative responsibilities and exercising their delegated powers appropriately. They also set out scenarios that employees may deal with from time-to-time, thus requiring at least some attention to the issues.

Another means of communicating information about governance is the 'desk drop'. This is a short, half page, brightly coloured sheet of information on governance issues dropped on the desks of all staff. The desk drop was created to vary the communication style, since most other information provided by the Centre is available in electronic form.

The first desk drop covered the important issue of delegations. As part of its process of continuous improvement, the Governance Centre sought to remind staff of the significant risk to the department posed by making decisions and taking actions without the appropriate authority. This was also considered an important issue due to the attention that the Department of Finance and Administration is giving to compliance with the Government's financial management and accountability framework.

Further support for departmental employees in terms of decision making and accountability issues has been enhanced through the introduction of a delegations management system called '*i-Delegate*'. This system makes accessing information about the powers and the level of authority employees have under law and other Government policies much quicker, easier and simpler, leading to a more robust process.

The Governance Centre also provides secretariat support, and develops the draft agenda, for a range of high level governance committees, including the department's Audit Committee and the Executive Management Team (a weekly meeting of the department's executive to discuss the week's priorities). Of particular note, the SES Management Team, which meets monthly, provides a forum for all SES employees to participate in organisational management discussions and provide feedback to the executive on key governance issues. Governance is a standing item on the agenda each month.

The SES Management Team meeting offers the Governance Centre an excellent opportunity to present governance information to senior management, and to raise the profile of the Centre and its issues. External speakers (for example from the Australian Public Service Commission or Department of Finance and Administration) are also invited to speak at SES Management Team meetings.

A *Catalogue of Governance Committees* provides the terms of reference, objectives and operational details of the range of governance committees including, among others, the People Management Committee and the Strategic Information Technology Committee. The catalogue is available to all staff on the Governance Centre's intranet pages and helps to raise awareness about decision making and consultative processes in the department.

Monitoring

The centre has not yet undertaken formal monitoring of the success of its communication strategies, but it receives ongoing positive feedback from employees and management.

Benefits

The high profile that the Governance Centre has developed since its inception has brought governance issues to the attention of departmental employees, and created a much greater understanding by employees of their responsibilities as departmental and APS employees.

The establishment of the centre has focused departmental resources and interest on governance and created an area with clear responsibility for driving cultural change.

Key messages

1. Creative, innovative and accurate methods of communication within departments are vital for effective application of governance principles, and also assist in staff acceptance and understanding of such issues.
2. Support from the Secretary for communication of governance matters raises the profile of the issues and acceptance within the organisation.
3. Wide dissemination of, and easy access to, information about the department's governance processes and committees structure assists employees' understanding of their responsibilities and avenues for decision making.

Department of Education, Science and Training

How the department used strong leadership, strategic planning, good communication, past experience and established processes to set up a new governance arrangement to ensure departmental objectives are achieved and Government initiatives are implemented.

The department

The Department of Education, Science and Training (DEST) provides national leadership in the development and implementation of policies to ensure the continuing relevance of education, science and training to contemporary needs and the growing requirement for lifelong learning. It works in collaboration with the states and territories, industry, other agencies and the community in support of the Australian Government's objectives.

The department has 2 500 staff located in the national office in Canberra as well as in all state capitals and the Northern Territory, and 19 overseas offices.

The challenge

The department has grown over the last few years. It has gained functions from other agencies as a result of machinery of government changes, and was required to integrate organisations including the Australian National Training Authority and the Enterprise and Career Education Foundation.

Following the 2004 election, DEST was required to implement a number of Government commitments including the *Investing in Our Schools Programme* and the *Australian Technical Colleges Programme*, and more recently the *National School Chaplaincy Programme.*

The system

In 2005 a cross-departmental group was established to look at election commitments for efficiencies in implementation. This proactive initiative was to assist the department in meeting the challenges of delivering current and future policy. The group was called the Election Commitments Coordination Committee (ECCC).

During 2005 and 2006, the work of the ECCC was largely accomplished. Having gained much experience and learned valuable lessons from this process, DEST established an Implementation Committee to ensure a continued response to policy implementation.

Committees under this structure were informal (they are not listed in the department's annual report) and they ceased to exist when the implementation of the committee's responsibility was completed. Relevant Branch Heads formed the membership of these committees, chaired by a Deputy Secretary.

The ECCC's experience resulted in the Implementation Committee becoming more strategic and forward-looking, in line with the department's intention to be a learning organisation.

Building on the work of the Implementation Committee, a sub-committee of the Corporate Leadership Group was established in May 2007. The DEST Implementation Sub-Committee provides endorsement and strategic direction for new initiatives.

What was done

A driving force in this process was one of the departmental Deputy Secretaries who was anxious to ensure that new knowledge gained during the process was codified and organised. In particular he wanted to position the department for future budget or election commitments when rapid implementation of new programmes would be necessary.

As a first step the Implementation Committee supervised the preparation of a website which consolidated existing implementation information. Called *Implementing Initiatives in DEST,* it includes a toolkit for better practice implementation and provides DEST staff with a model for dealing with implementation issues, especially in the light of tight timeframes. It also focuses on the need for DEST staff to implement their programmes according to public sector integrity, accountability and public confidence requirements. The website was launched in December 2006.

The *Implementing Initiatives in DEST* website is divided into four main areas:

- **Approach** which provides information on establishing, scoping and planning an initiative; emphasises the importance of early planning and the value of creating a schedule and timetable to follow; and highlights specific issues for consideration, including the need for attention to risk management, and issues associated with whole of government initiatives
- **Deployment** which provides information on useful tools for implementation, including issues relating to record keeping and accountability
- **Results** which provides information on monitoring, quality assurance and evaluation, including useful checklists for staff to follow; and identifies and outlines reasons for undertaking evaluation of implementation initiatives
- **Improvement** which highlights lessons learned by the department's ECCC and provides information and contacts for staff to learn and adapt from their own implementation experiences.

DEST believes that establishing governance structures is one of the first steps in the process of implementing policy or other initiatives. Governance arrangements should cover the internal and (where relevant) external reporting lines and lines of accountability. It is important to identify key accountabilities and those staff, including senior executives, who are responsible for the implementation and management of the policy or initiative.

Governance structures are also an effective means to draw on existing corporate experience and share expertise. It is important to establish governance structures early as a means to scope the initiative and manage the process.

Having developed its *Implementation Website*, the Implementation Committee then built on the website and developed a *DEST Implementation Framework*, in part informed by the ANAO and the Department of the Prime Minister and Cabinet's better practice guide, *Implementation of Programme and Policy Initiatives* (October 2006). As part of developing the Framework, the Implementation Committee considered the degree to which it was appropriate to expect its adoption by line areas with responsibility for implementing projects.

A risk-based approach was adopted within which small, less complex projects were to be managed solely by the line area with no monitoring or reporting responsibilities. Where the level of complexity, risk or sensitivity of a project was higher, the level of conformance to the Framework and the level of external monitoring of progress required of line areas also increased. These requirements were articulated on a single page matrix (provided at the end of this case study) which mapped the increasing levels of conformance required to increasing complexity. For the most complex implementations, line areas are required to have their proposed project governance arrangements and the project risk plan approved by the DEST Implementation Sub-Committee, and to include specific reference to the project in their business plans. They are required to adopt all aspects of the Framework and report progress to the DEST Implementation Sub-Committee through the life of the project.

With the adoption of this approach, the DEST Implementation Sub-Committee has turned its attention to making sure that issues that have whole-of-DEST impacts are considered and appropriate priorities are adopted. Examples to be considered include recruitment and staffing strategies across competing projects, IT deployments and devolution options to the state office network.

Monitoring

Improvement and review processes have been an important element of the implementation initiative from its inception as the ECCC. The ongoing implementation process requires that staff follow an approach which includes appropriate planning, consultation, communication and risk management to ensure that lessons learned are translated into, and adapted for, new departmental arrangements and initiatives.

Benefits

Rapid implementation of programmes has been a challenge for the department, but the Implementation Committee structure has been very helpful and the new *Implementation Website* and Framework are expected to further assist DEST managers to implement new proposals in line with the DEST culture and governance process.

The involvement of staff from across the department in the Implementation Committees has been valuable in encouraging and maintaining department-wide relationships and networks and promoting a more forward-looking, creative, integrated and learning-oriented organisation.

* Consideration should be given to using the Implementation Framework if:

Implementation is monitored externally

Level of Conformance

			Level of Governance
		An initiative in the high level category includes anything that is politically sensitive, has a large budget or has been assessed as high risk	• All components of the framework are used • High level governance is established • Progress is reportable to the CLG Subcommitee on Implementation • Included in Group business plans
	An initiative in the medium level category would include anything that required implementation arrangements to be signed off by the Group Manager		• The framework is used and decisions recorded • Governance is at the Group and/or Deputy Level • Included in Branch business plans
An initiative in the low level category would include anything low risk, small scale eg. extension of existing programme and locally administered			• The framework is used as a guide • Governance is at the local level eg Branch Manager sign off • Not included explicitly in the Branch business plans but may be included in local plans and performance agreements
Low • Small scale initiative • Not sensitive	**Medium** • Medium scale initiative • Low sensitivity	**High** • Large scale initiative • Sensitive or complex • Subject to either the CIU or Gateway# review • Assessed as a strategic risk • Potentially damaging to DEST or the Minister's reputation	# The current thresholds are: $10m and over for IT projects; and $20m and over other procurement and infrastructure projects.

Delegated responsibility

Complexity of initiative

Requirements re use of framework

*All initiatives are required to adopt and scale the Implementation Framework

The value of this process has been demonstrated by the fact that recent implementation processes, with very tight timeframes, have progressed very successfully. For example, the new *National School Chaplaincy Programme* was announced in October 2006 and schools have been able to apply for funding since early 2007. The *Australian Skills Vouchers Programme* was also announced in October 2006 and applications have been available online since January 2007.

Key messages

1. When required to implement new initiatives rapidly, it is vital to first establish strong governance arrangements such as ensuring views, support and leadership from the Minister and executive; setting parameters; identifying risks, resources and timeframes; and establishing stakeholder relationships.
2. Early and smart planning and making use of established departmental processes such as legal advice and risk management arrangements greatly enhances implementation.
3. Developing an Implementation Committee structure and a model for staff to follow can assist you to rapidly incorporate new programmes and organisations into the departmental environment.

Attorney-General's Department

Redesigning internal financial systems, governance arrangements and procedures—how Attorney-General's shifted to a more structured and centrally supported approach by implementing an internal financial framework to meet its financial obligations. How it strengthened its financial management and accountabilities through strong leadership, reporting, communication and compliance arrangements.

The department

The Attorney-General's Department (AG's) provides expert support to the Government in the maintenance and improvement of Australia's system of law and justice, national security, and emergency management. The department employs approximately 1 300 people predominantly in its Canberra offices with a small number of staff in the states and territories.

The challenge

In the last five years, several factors combined to prompt AG's to review the adequacy and appropriateness of its financial management systems and the ability of these systems to support the department's operations as well as to meet current and emerging accountability requirements, including the new Compliance Statement requirements.

The AG's budget has increased in response to increasing and more diverse responsibilities and complexity of work. The department is now responsible for administering complex indigenous, legal and security related programmes as well as full cost recovery operations when previously much of its work was confined to policy. The consequence is more complex budgeting and reporting, challenges in matching annual revenue with expenditure as well as aligning budgets and expenditure against expected programme delivery outcomes and timeframes, and increased financial management responsibilities for line managers.

A review of the financial 'health' of AG's, done in conjunction with the Department of Finance and Administration (Finance) in 2004, identified that:

- improvements were needed in strategic financial management and analysis
- a review of the budget position and forward estimates was necessary
- additional support should be provided in relation to financial management including to the groups though divisional business manager positions.

The review also concluded that the responsibilities of the Chief Finance Officer (CFO) should be broadened and that the CFO should be part of the executive team.

The system

Previously, AG's operated with financial management as part of the corporate services function without a CFO in the executive team and with financial strategy development and management largely devolved to divisions. Its financial management team was a small group largely focused on the operational aspects of financial management and meeting external requirements and deadlines. There were few documented financial polices or processes and heavy reliance was placed on a few, very experienced people.

What was done

Following the review a CFO was appointed to the executive team, and tasked with advising on the financial health of the department as well as developing and driving a programme of ongoing financial reform and change.

The CFO's first action was to conduct her own review of financial management in consultation with division heads. This resulted in the establishment of an internal financial management framework which is the strategic financial governance framework for the department and forms the basis for all financial performance and activities within the department and guides further reforms. This framework is set out in Figure 1.

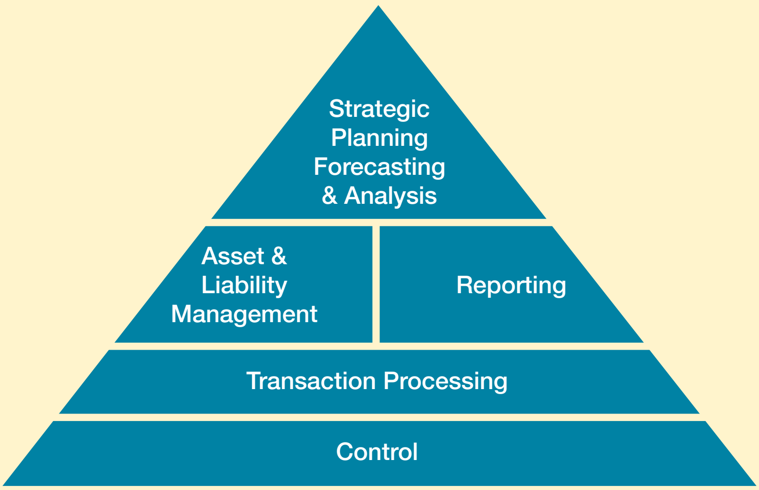


Figure 1: The elements of the financial management framework

Business managers were placed in every division with 'dotted line' reporting to a new central strategic financial management section providing additional support to the groups and divisions. Previously while the Deputy Secretaries had been supported by business managers, only two divisions out of 11 had the support of a business manager.

As well as this strategic financial support to divisions, the expanded financial management branch is responsible for developing and implementing the internal financial management framework and providing consistent guidance and processes for financial management in addition to ongoing transaction processing, financial management information system maintenance and support, and internal and external budgeting and reporting roles.

Although broader financial guidance and support is centralised, business managers placed in divisions provide day-to-day support. Business managers report to their division head but also fully participate in developing and implementing financial reforms in cooperation with the central finance team.

While the need for change was initially identified by the Finance health review and endorsed through the CFO's own review it has been enthusiastically embraced by senior managers as well as business managers and staff within the financial management branch.

In each step of the reform process, senior managers and division business managers were consulted and involved and are now kept informed through '30 second updates,' but there also needed to be strong upward and downward management from the new finance team to ensure momentum and compliance.

Managers are appreciative of the additional support and financial information they now receive both from their business managers and from financial management branch, especially given the broadened financial responsibilities and the complexities of the programmes they run. This is motivating them to be more proactive and to think collaboratively from a 'whole of department' perspective instead of just about the financial outcomes for their own group or division.

Business managers are kept engaged and informed through a formal network and regular forums and information sessions in which they are encouraged to discuss issues and share ideas. A business manager support network has also been established which is run and managed by the business managers themselves.

The appointment of the CFO to the executive has been a key factor in success both because of the senior level influence of the financial role and also because of the strategic and sustained focus of this position to identify and drive further necessary reforms and improved approaches to financial management.

Changes and the higher standards needed are also supported by a financial management learning and development programme for all managers and staff with financial management responsibilities. This programme has become a key part of the corporate training calendar.

The central finance team is now better resourced as are all divisions. With the addition of the business managers and changes to the central finance team, financial management support for the department has significantly increased since the original review in November 2004. There is only a small number of financial staff remaining who were there two years ago resulting in a higher than average turnover within the finance group. This has created the opportunities to bring on new staff with fresh perspectives and to develop a highly professional and cohesive financial management branch to take the financial reforms forward and meet new and changed responsibilities.

The financial management framework still needs further development before it reaches the point where the Executive and the CFO would like it to be.

The financial management branch needs to finish documenting all financial procedures to support their day-to-day work and that of the business areas; roll out the learning and development programmes to complement the new financial framework; and tackle procurement processes and practices to ensure that AG's is fully compliant with the external framework and regulations and is applying consistent processes.

Monitoring

The reforms continue to be guided by the financial vision for AG's that '*The Department, its managers and external stakeholders have confidence in the financial management framework and the Department's financial management capability*'.

A financial management framework programme is implementing the continuous improvement projects. Fifteen projects have been completed, five are currently underway and around fifteen projects have been identified for the future.

A 'governance' board of senior managers representing each of the groups oversees and monitors the development and implementation of this programme of financial reforms. It recently requested an assessment of how well the changes already rolled out have been accepted and implemented. This assessment will consider the current approach, what has changed and improved, and what still needs to be done as well as assess the effectiveness of communication mechanisms between the Financial Services Group and its key internal stakeholders.

Benefits

Apart from the obvious benefit of a healthy, effective and compliant financial management system, AG's identifies further benefits.

There has been a change in culture for the better. Managers and staff have a strong awareness of their responsibilities and the importance of strategic financial management. There is much better collaboration among senior managers, whose concerns stretch to the financial health of the whole department, and not just their own domains.

There is a strong relationship between the rest of the department and the finance team reflecting trust and confidence. The strong finance team is seen as an enabler, helping the department meet its policy and programme objectives.

Key messages

1. Set realistic timeframes—make sure you take into account the impact of change and the time it takes for others to understand and implement it. Regularly take stock of where you are in your schedule and how you might need to adapt.

2. Resource new projects appropriately—ensure you have dedicated staff responsible for developing and rolling out projects. Assign your experienced staff to the projects allowing them to have the time to put in for the success of the project and bring in temporary, additional staff to provide the usual day-to-day financial services.

3. Target senior staff—it's always a challenge to engage senior management and to communicate finance reforms effectively but they are essential to the successful adoption of reforms.

4. Put the time and effort into documentation—written guidance and procedures are core to providing support and continuity in business processes no matter who is doing the job.

5. Invest in skilling and training financial staff and senior managers—a challenge for all departments is attracting and retaining skilled financial staff. Establish ongoing formal and on-the-job financial training to ensure that knowledge and skills are spread widely and that future staff turnover will not have an impact.

6. Be prepared to review and critique progress and make sure you celebrate successes—ongoing review and communication is key to maintaining the momentum and ensuring reforms remain current and relevant.

Department of the Environment and Water Resources

How a large and diverse department developed an 'activity tracker' as a risk management and reporting tool to monitor and report on departmental issues.

The department

The Department of the Environment and Water Resources develops and implements national policy, programmes and legislation to address Australia's environmental climate change, water resources and heritage challenges.

The department is large and diverse, employing approximately 2 200 staff in 14 divisions. The portfolio has seven entities including the Bureau of Meteorology, National Water Commission and the Office of the Renewable Energy Regulator.

The challenge

The department has undergone several significant machinery of government changes over the last few years, most recently gaining responsibility for the water resources portfolio.

It is a large department covering a broad and varied range of activities and administering over 50 individual pieces of legislation. As a result, the activities and resultant risks that it manages are very diverse.

The department has a range of internal governance committees. The Senior Executive Management Meeting, held every fortnight, is attended by the Secretary, Deputy Secretaries and the heads of the Corporate Strategies Division and the Policy Coordination Division. There is a weekly senior executive roundtable meeting, which also includes heads of all divisions and portfolio agencies. Other committees include an Audit Committee, Compliance Executive, and Knowledge Management Committee.

The need for a consistent, comprehensive snapshot of activities across divisions was identified in 2005. The executive required a good strategic overview of what was going on across the department and its portfolio bodies.

The system

The Activity Tracker was introduced in early 2006 and was adapted from a similar system used in the Department of Industry, Tourism and Resources. Some other departments use comparable systems.

It is a quarterly report from divisions to the Secretary and Deputy Secretaries to track progress and identify emerging risks associated with key activities. The report lists key departmental activities and their current implementation status, and details priority projects, programmes and hot issues in the department.

Each division is asked to update the report template by assigning a single 'traffic light' rating for the overall progress/risk of each activity. Activities are assigned a traffic light according to the nature of the risk or issue. Red is high risk—serious, urgent problem; amber is medium risk—possible serious problem but not urgent; green is low risk—no problem.

(The guidance on assigning traffic lights and the Shell Reporting Document are provided at the end of this case study.)

A brief description of the status of the activity, emerging issues, sources of risk and action taken is then provided. The final item of the report indicates the management response—either that the matter is in hand and the Deputy Secretary informed, or the involvement of senior executive management or the Secretary is required.

Division heads may nominate activities or issues to be added to the list when updating the report, or may remove activities that are complete or no longer a priority. The report is then compiled by the department's Governance Unit and provided to the Secretary and Deputy Secretaries.

Due to the sensitive nature of the material it contains, the Activity Tracker is a protected document. Only matters relating to their own division are seen by division heads.

What was done

The idea of regular reporting on strategic risks was proposed to the senior executive in 2005 by the department's Governance Unit. The senior executive agreed to trial a report on key activities, including traffic light ratings for areas of risk in the department.

In preparing the pilot Activity Tracker report, the Governance Unit identified a list of activities for inclusion in the report in consultation with the senior executive, and then interviewed programme managers of the activities to identify progress to date; what controls were in place; and what risks the Secretary needed to know about.

Based on feedback from the senior executive, the reporting system has been modified twice since it was introduced, both in its appearance and the preparation process.

Requests to update the Activity Tracker reports are now sent to division heads in the department every quarter. The Governance Unit compiles the report, seeking clarification on the input if required, and provides the draft report to the Deputy Secretaries for their clearance/edits. The report is then provided to the Secretary and to the Senior Executive Management Meeting. This process ensures quality control and accuracy of the reports.

Monitoring

Six quarterly Activity Tracker reports have been compiled as at June 2007, the first two of which were conducted as trials. It is regarded as a work in progress and is being refined on an ongoing basis.

Benefits

The senior executive has found the Activity Tracker a very useful tool to assist it to identify problems, or potential problems, at an early stage. The simplified format that is used enables clear, consistent and concise reporting by all divisions.

Key messages

1. Larger agencies covering diverse functions, especially when those functions are varied over time through machinery of government changes, may find it useful to have a device such as the Activity Tracker to ensure that the senior executive in particular have a strategic overview of issues in the department.

2. This type of monitoring and reporting system can form an integral part of your overall risk management strategy.

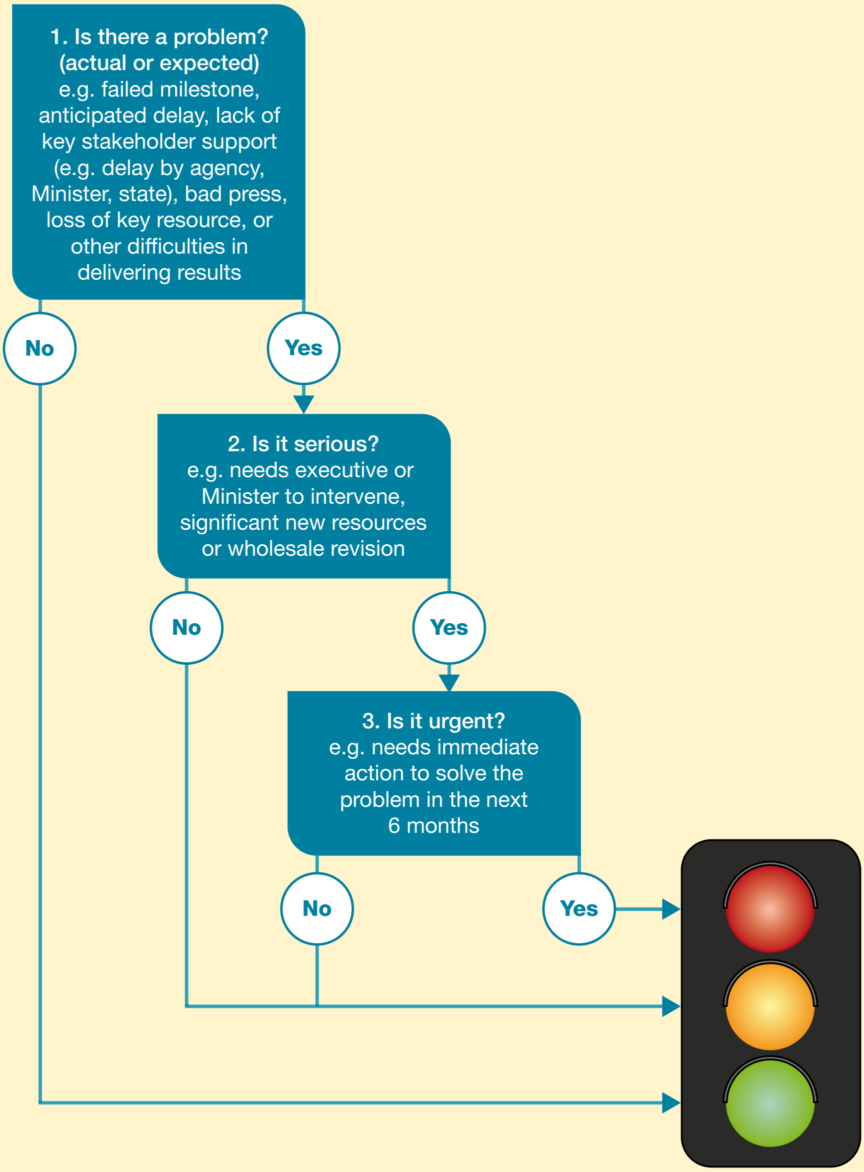
3. A key to ensuring successful implementation of the Activity Tracker is to have a robust, well-defined rating system that is easily understood.

Department of the Environment and Water Resources—additional information

Guidance on assigning traffic lights and reporting

1. ASSIGNING TRAFFIC LIGHTS

Use the following prompts to assign traffic light ratings. Assign a single traffic light indicating overall progress toward implementing the activity, rather than one each for project plan, staffing and expenditure.



2. REPORTING

Provide text explaining why there is an issue and the consequences of it, in particular actions required by the senior executive.

A red rating should provide as much information as needed to explain the rating and mitigation actions. Information can be provided as an attachment to the 'activity tracker' if required.

Information required for traffic light ratings

Colour	Meaning	Consequence
RED	High risk Serious, urgent problem	Attach a few lines to the report to explain the main source(s) of risk and what is being done to address them, or needs to be done by senior executive.
AMBER	Medium risk Possibly serious problem, but not urgent	Summarise the main source(s) of risk and what is being done to address them.
GREEN	Low risk No problem	Consider recommending that senior executive no longer needs to monitor progress.

SHELL REPORTING DOCUMENT
Activity Tracker report
June 2007

Activity or issue	Source(s) of risk	Management response
1) Assign traffic light 2) Add start/end date*	1) Update text on the status, emerging issues, sources of risk and action taken	1) Assign option from key 2 below

* Start/end date: date of original Cabinet decision for Cabinet approved programmes, or milestone date in Implementation Plan, or commencement date of programme (as appropriate)

Key 1: Assigning traffic lights

	Red traffic light = high risk; serious, urgent problem.
	Amber traffic light = medium risk; possibly serious problem, but not urgent.
	Green traffic light = low risk; no problem.
V V	Down arrow inside the traffic light = risk has decreased since last report.
^ ^	Up arrow inside the traffic light = risk has increased since last report.
N N N	'N' inside the traffic light = new item; did not appear in last report.
	No symbol inside the traffic light = risk unchanged since the last report.

Key 2: Management response

Option	Explanation
1	In hand—Deputy Secretary is informed, no further action required by senior management
2	Senior executive management involvement required
3	Secretary's advice – involvement required

B. Statistical analysis by Governance Unit
Changes in risk since last quarter

1. New risks

2. Heightened risks

3. Lowered risks

Prepared by the Governance Unit, June 2007

Department of Employment and Workplace Relations

How a large, geographically dispersed department covering a range of subject matters has structured its governance committees to provide flexibility as well as strong leadership, direction and accountability.

The department

The Department of Employment and Workplace Relations (DEWR) provides the Government with high quality advice, programmes and services to achieve three outcomes: efficient and effective labour market assistance; higher productivity, higher pay workplaces; and increased workforce participation.

The department has a staff of 3 600 located in the national office in Canberra, in offices in all state and territory capital cities and in a number of regional centres.

The challenge

As a large agency, the challenge for DEWR was to set up a governance committee structure that provided leadership and direction to its management and staff while at the same time providing appropriate flexibility to deal with new functions and policy directions as they arise.

The system

The department has developed a robust governance system, in particular through its committee structure. Overall direction comes from the Secretary, ensuring strong leadership and coordination of governance issues within the department.

The highest level governance committee is 'Management Board', comprising the Secretary, all Deputy Secretaries, the Group Manager Corporate, Chief Financial Officer, and Group Manager State Office Network. The General Counsel has observer status on Management Board, and offers legal advice, but does not participate in decision making.

The role of Management Board is to provide active and visible strategic leadership to the department, and its focus is on broad trends and issues of importance to the department.

The Secretary chairs weekly Management Board meetings. All areas within the department may submit papers, and regular reports are provided by areas such as human resources, finance, audit, ethics, security and property. Trends and systemic matters relating to code of conduct and harassment issues are also considered by Management Board to ensure that departmental policies are appropriately applied.

Management Board has a strong supporting structure of sub-committees (such as Audit, Ethics, Information Technology, and People and Leadership) which are typically chaired by Deputy Secretaries (SES Band 3) or Group Managers (SES Band 2). There is also the Remuneration Sub-Committee, chaired by the Secretary, which meets fortnightly to consider remuneration matters relating to staff (in particular, new Australian Workplace

Agreements (AWAs), modifications to existing AWAs and indicative performance pay ratings). This attention to detail ensures a consistent approach to agreement-making and performance outcomes across the department, as well as ensuring that the process is open and 'above board'.

Departmental management follows a principles-based approach to set the culture and ethos of the department, establishing parameters and guidelines on issues and policies. Managers are expected to take responsibility for managing risks, and in pursuit of that expectation, they are provided with a clear outline of departmental policies and programmes and an understanding of departmental direction and objectives.

What was done

The department is structured according to its three outcomes, with a Deputy Secretary responsible for each outcome. This clear alignment of outcomes and responsibilities is an important element of any good governance structure.

The department has established a process of setting up 'oversight committees' to deal with new, often complex, work following machinery of government changes or new policy initiatives. It has developed a model to ensure good governance practices are adhered to in addressing specific issues such as the Workplace Relations policy and legislative development, and Welfare to Work initiatives.

For example, the Welfare to Work committee met weekly to develop strategies to deal with new issues facing the department such as the developing relationship with Centrelink. Committee members worked through cases, examining relevant policy and legal issues, programme management, and people management issues. Members were able to learn from each other and to share information to ensure effective and speedy implementation of the programme.

The oversight committees are formal but temporary, ceasing to operate once a matter is dealt with (after which time the residual work falls under the normal committee structure). While topic-specific, they bring together relevant people from various areas in the department that have an interest in a particular matter.

Monitoring

DEWR undertakes ongoing monitoring of the suitability of its governance structures. As a result, in 2006 the Group Manager State Office Network became a member of Management Board. That position was added to ensure that the department's very significant and high profile state and regional network was made an integral part of the departmental governance structure.

Overall, DEWR believes that its committee structures have worked well. There have been some minor modifications and adjustments over time to ensure the currency and appropriateness of the governance structure.

Benefits

The oversight committees not only produce better outcomes because of the involvement of all key areas, but also help to establish networks across the department that might not otherwise have existed. As a result, ongoing working relationships are established, which further assists in breaking down any 'silo' mentality (always a challenge in large agencies) and creates a feeling of cohesion in the department.

Key messages

1. The Secretary plays a crucial role in setting the direction of the department and its governance arrangements, in particular the establishment and operation of committees.
2. A strong committee structure provides overall guidance for managers and helps them to understand the department's framework, objectives and intended outcomes.
3. The use of 'oversight committees' in addition to the formal 'standing' committee structure can be particularly effective in a large department which is geographically dispersed and covers a range of distinct but often inter-related policy areas.

Department of the Treasury

How a department changed its internal governance committee and organisational structure to better fulfil its role and mission statement by improving communication arrangements, strengthening its strategic focus and improving consultation, reporting and accountability lines.

The department

Treasury provides advice to the Government on improving the wellbeing of the Australian people. It achieves this by providing sound and timely advice to the Government, based on objective and thorough analysis of options, and by assisting Treasury Ministers in the administration of their responsibilities and the implementation of Government decisions.

The department currently has a staff of just under 850, although its portfolio (of 11 agencies including the Australian Taxation Office and the Australian Bureau of Statistics) numbers over 28 000 staff.

The challenge

Until 1998, Treasury had a traditional APS organisational structure. In that year, as part of a major reform process, a new Treasury Management Model was instituted. That model set out: the organisation's purpose and objectives; an organisational framework; people systems; and support for management development. The model was developed to ensure the department focused as clearly as possible on the needs of Ministers and in a way that maximised the satisfaction that staff derive from working in Treasury.

The new structure comprised Executive Directors (SES Band 3) reporting to the Secretary with general managers (SES Band 2 or SES Band 1) reporting to Executive Directors. Unit managers (SES Band 1 or EL2) reported to general managers. Notably the department removed the former First Assistant Secretary layer of management to improve efficiency and job satisfaction by creating a management structure with clearly defined roles and responsibilities.

These reforms were generally considered to be very positive for the department, and this was confirmed by responses to a staff survey some years later. However, some deficiencies relating to the new structure and roles and responsibilities of senior management emerged over time.

While Executive Board (Secretary, Executive Directors and General Manager Corporate Services Division) considered it important to retain the acknowledged benefits of the 1998 reforms, it also wanted to improve departmental performance by making better use of its more senior people. The aim was to improve the strategic leadership of the Executive Board; enhance the SES leadership capability; and acquire a credible and sustainable 'surge' capacity.

The senior executive group also needed to be better at providing management oversight of policy crisis projects while not taking complete responsibility for the large amount of work involved.

The system

New arrangements to address the concerns expressed by the executive and staff came into place in September 2002.

These included designating particularly challenging general manager positions for SES Band 2s; creating more SES Band 1 managers and specialists to ensure that the department's objectives were met; including SES Band 1 subject specialists in large teams managed by SES Band 2s; and including in each group a senior executive resource working on strategic issues, reporting to the executive director but also working with other group staff and the Executive Board.

In addition, staff titles were clarified to highlight the specific policy advising role of senior staff, while not ruling out a small number of staff at these levels being recognised as subject matter specialists.

Under these arrangements, Executive Directors set up formal and regular mechanisms to give EL2s in their group an opportunity to express first-hand their views on organisational arrangements and management issues.

At the same time, the department moved to a more clearly defined governance committee structure with the intention of focusing Executive Board attention more specifically on strategies and systems, and enhancing the role of SES Band 2 employees.

The Executive Board now holds the following meetings:

- weekly management meetings focusing on immediate priorities for the coming week and cross-group coordination
- monthly organisation strategy meetings addressing corporate governance and other key issues
- monthly policy strategy meetings dealing with major public policy challenges facing the Treasury—attended by SES Band 2 employees and other SES as required
- six-monthly policy strategy forums involving all SES, which address major policy and organisational strategic issues.

What was done

In early 2002, Executive Board considered substantial changes to the department's organisational structure and strategic focus, drawing from its own identification of problems and from results of the 2001 staff attitudinal survey.

Recognising the major scope of the changes, and their likely impact on staff, the Executive Board wanted to get it right. As a result, consultants were engaged to workshop the range of organisational issues identified and possible solutions, consulting widely throughout the department.

During these workshops, executive level staff expressed particular concern about accountability responsibilities which flowed from the changed roles of SES Band 2 staff. Reporting lines were changed to take account of these concerns.

The workshops also revealed continuing concerns regarding communication within the department, resulting in greatly improved staff access to supervisors as well as generally better communication arrangements within the department.

Summaries of issues discussed in Executive Board are now regularly communicated through staff notices and on the intranet, and minutes of meetings are also made available to staff.

Monitoring

During and after the changes instituted in 2002, ongoing staff attitudinal surveys (conducted every second year since that time) and staff consultation ensured that feedback would be incorporated into the implementation of the organisational restructure and improved strategic focus.

A further review was commenced late in the 2006–07 financial year and appropriate implementation and communication will follow.

Benefits

The expansion of Executive Board, and improvements in its meeting structure, ensured a wider perspective and a longer-term, strategic approach to issues. These changes provide clearer guidance to staff on priorities and expectations and an opportunity to include a broader range of SES employees in the strategic management process than had previously been the case.

These changes were important elements in recognising the value and contribution of senior staff to the department's ability to deliver on its mission statement.

A recent departmental staff survey recorded a more positive response to issues such as leadership, accountability and roles and responsibilities than had been recorded prior to the changes.

Key messages

1. Making changes to departmental structural and organisation arrangements can greatly increase the ability of senior managers to consider broad, future-oriented, strategic and cross-group issues.

2. Removal of the divisional structure in a department can lead to greater work efficiency and productivity, encourage the devolution of responsibility, bring about greater clarity of staff roles and responsibilities, and increase the attractiveness of the department to prospective and current staff.

3. Movement to a strategic management approach and more flexible organisational structure can encourage staff accountability and acceptance of change.

The Australian Agency for International Development (AusAID)

How the Australian Government agency responsible for managing Australia's overseas aid program responded to a significantly changed operating environment through a major transformation.

The agency

The Australian Agency for International Development (AusAID) plans, coordinates and manages the Australian Government's overseas aid program. AusAID's objective is 'to assist developing countries to reduce poverty and achieve sustainable development, in line with Australia's national interest'. AusAID:

- works with governments of selected developing countries to assist them strengthen their own institutions and deliver essential services;
- works with, and contributes funds to, multilateral donors (e.g. World Bank, World Health Organisation, UNICEF), non-government organisations (e.g. World Vision, Oxfam, CARE), and volunteer programs (e.g. Australian Business Volunteers, Australian Volunteers International);
- contracts in expertise from Australian and international companies to deliver aid projects; and
- responds to humanitarian disasters with financial assistance, on-the-ground support and coordination activities.

AusAID has approximately 1,300 staff—700 in Canberra and approximately 600 overseas in over 30 different locations. The agency has a diverse workforce, with staff engaged under a range of different employment modalities—e.g. Australian public servants, contractors, specialist advisers and program managers and locally engaged staff (engaged overseas in accordance with local labour laws). Staff based overseas work in a range of different locations including High Commissions/Embassies, stand-alone offices and co-location with other donors and/or with partner government agencies.

The challenge

AusAID is undergoing a major transformation, which is being driven by two significant developments in the agency's operating environment. These are:

- a focus on improving aid effectiveness, particularly through how aid is delivered, and
- a significantly increasing aid budget.

Improving aid effectiveness

Australia, through its own experiences in Asia and the Pacific and broader international experience, has learnt important lessons about improving aid effectiveness. A key lesson has been that closer engagement with partners in aid delivery increases the effectiveness of aid.

Drawing on this experience, AusAID is shifting away from 'traditional' projects managed by contractors to working more closely with partners in delivering aid. This has included an increase in working through partner government systems—AusAID officers are often co-located in partner agencies to jointly design, implement and evaluate programs. The agency is also working more closely with other donors to ensure better harmonisation of aid activities. Sector Wide Approaches, which involve working jointly with partner governments and other donors in a particular sector, are also being used more widely.

Significantly increasing aid budget

In 2007-2008 Australia is estimated to have provided $3.2 billion in Official Development Assistance (ODA), representing 0.3 per cent of Gross National Income (GNI). The Government has committed to significantly increasing the aid budget to 0.5 per cent of GNI by 2015.

The significant increase in the aid budget over the next six years coupled with the shift to new ways of delivering aid presents major challenges for the agency. A 'partnership' approach to aid delivery is more complex and it is more difficult to measure the direct impact of Australian support. At the same time, the proposed increases in the aid budget will require significant up-scaling of programs—this is likely to attract increased scrutiny and further pressure to demonstrate results/effectiveness.

To operate effectively in this new environment it was evident that the agency would require:

- an expanded presence overseas with an increased number of AusAID staff directly involved in delivering aid (including being co-located in partner government agencies jointly designing, managing and evaluating programs);
- staff with the skill sets to manage new ways of doing business;
- improved capacity to measure performance/results in a more complex operating environment;
- strong governance including change management; and
- a strong corporate spine to support the delivery of an effective aid program.

The strategy

In 2007, in response to the enormous challenges facing the agency, AusAID's Director General released a 'blueprint' outlining how the agency would meet the challenges of a significantly increased aid program by 2010. The *AusAID 2010 – Director General's Blueprint* built on the direction of previous policy statements and the 2006-2010 Agency Business Plan to provide a broad institutional picture of how the agency would function as it sought to deliver a significantly increased aid program. While *AusAID 2010* was initially targeted at the previous Government's policy to double the aid budget by 2010, the document (including updates and implementation plans) has provided the basis for delivering on the current Government's commitment to increase ODA to 0.5 per cent of GNI by 2015.

What was done

Under *AusAID 2010*, the agency embarked upon a program of staged restructure to better position it to meet the challenges of the new operating environment. The revised structure addressed a recognised need for AusAID to have a strong centre in Canberra that sets the strategic directions for the program and agency, supports the aid delivery function and manages the risks posed by the shift to a predominantly offshore operating state.

Central to the new structure was a significantly expanded role for country offices. This included the devolution of activity management from Canberra[1] and a greater role for policy engagement with partner governments and other donors. The expanded role for country offices has resulted in a changing staff profile for the agency with a significantly increased number of staff located in-country.[2]

To strengthen the aid program's access to sectoral expertise, a range of technical/thematic groups (e.g. health, economic, gender, education, rural development, infrastructure, governance, environment etc) were established. In addition to providing technical support, the thematic groups play a critical role in ensuring the contestability of program design and review.

1 While devolution of activity management to country offices had commenced a few years earlier, AusAID 2010 provided both a strategic framework and the systems and support for devolution to be rolled out across the aid program.

2 In 2004 AusAID had 60 A-based staff (diplomatic) overseas with approx 250 overseas based (O-based); in 2007 AusAID had approximately 160 A-based overseas (mixture of diplomatic and in-line advisory positions) and approximately 350 O-based.

An Office of Development Effectiveness (ODE) was also established within AusAID to monitor program quality and effectiveness and provide robust assessment and review processes. ODE reports directly to the Director General and is oversighted by a Development Effectiveness Steering Committee (DESC) comprised of the Deputy Secretaries of key Australian Government agencies.[3] ODE prepares an Annual Review of Development Effectiveness report which assesses the effectiveness of all Australian overseas development assistance. The report is publicly available and is an important mechanism for ensuring the transparency and accountability of the aid program to Australian taxpayers.

Governance arrangements and corporate systems

These structural changes have been accompanied by the strengthening of the agency's governance arrangements and corporate systems and processes. Although a work in progress, some changes have already been made to ensure the agency is well placed to support the new operating state. This includes establishing or revamping a number of internal management committees to guide the reform process and support program delivery. These include:

- Executive Committee - responsible for guiding the agency's overall policy direction and relationships;
- Program Committee - responsible for strategic oversight of program management and performance;
- Audit Committee - responsible for legislative, corporate governance, risk management and financial responsibilities;
- Resources Committee - responsible for cross-agency analysis of financial, human and physical resources;
- Placements Committee - responsible for recommending staff placements in Canberra and postings overseas; and
- Information and Knowledge Management Committee - responsible for identifying and developing policies and practices that support effective information flows and knowledge management.

In addition to AusAID's governance committees, the agency has planning and procedural mechanisms to support operational needs. The strategic planning framework is based on the 2006-2010 Corporate Plan and 2006-2010 Agency Business Plan. Work is currently underway to update these key strategic documents to reflect the new operating state. Business unit plans and individual performance plans are aligned to these high level planning documents.

Over the past eighteen months improvements have been made to business unit planning and review processes, strengthening the linkage between strategic priority setting and resourcing, and adopting a stronger results orientation. The processes will be further reviewed after each cycle to ensure continuous improvement. AusAID's approach to individual performance management has also been revamped, with the new process having a stronger correlation to strategic planning processes.

3 Prime Minister and Cabinet, Foreign Affairs and Trade, Treasury, Finance and Deregulation

The agency's corporate enabling functions have/are being enhanced to support an expanded aid program with a significant overseas presence. For example:

- a dedicated corporate enabling division has been established to strengthen the agency's operations in Canberra and overseas;
- designated corporate positions have been created for all large overseas offices including Port Moresby, Suva, Honaria, Jakarta and Bangkok;
- a workforce planning strategy is being developed to ensure the agency is planning for its future human resources needs;
- training and development has been re-orientated to meet the new operating state and includes a core of mandatory training modules on leadership/management and financial management;
- financial policies have been refined/improved to increase accountability and transparency;
- while ensuring all staff, both in Canberra and overseas, have access to a common suite of desktop IT services continues to be a challenge, progress is being made, albeit more slowly than originally anticipated; and
- the agency's property and security areas have been expanded in response to the need to post a larger number of staff overseas.

Finally, a high priority for the agency has been to ensure it has a consistent set of core business processes that are appropriate for the new operating environment. Following a review, the agency's business processes have been streamlined and simplified to support delivery of an aid program that is higher volume, better quality and more devolved. A range of processes are being mapped and released to provide staff with the minimum, mandatory set of processes. Rigid quality assurance, peer-review and user-testing methodology are being applied to these core processes. The result is a standardised, quality controlled set of simple instructions with mandatory steps that apply to all staff in all locations. Examples of processes that have been released include: designing an aid activity; spending public money; and individual performance management. These processes manage risk, assure quality, increase efficiency and meet the needs of a mixed workforce in several global localities with cultural and language diversity.

Monitoring

AusAID's Corporate Reform Section has primary responsibility for monitoring AusAID's progress towards its new operating state. The section regularly tracks the agency's reform activities, and plays a key role in capturing important lessons that have been learned across the organisation. It also provides analysis and recommendations to the Executive and line managers on appropriate reform approaches.

ODE has responsibility for reporting on the effectiveness of the aid program as well as building the capacity of Australian agencies delivering aid to manage on the basis of results.

Benefits

AusAID's new operating state will allow the agency to:

- serve its Minister and the Government by leading the formulation of whole-of-government policy and strategic advice on international development issues, and by working collaboratively with other Government agencies, Australian institutions and international development organisations in the provision of aid;
- contribute to lasting development results by designing high-quality programs of assistance within well-targeted country and thematic strategies and implementing such programs efficiently and effectively; and
- value, support and invest in its people and supportive institutions in order to maintain high-calibre policy, technical and corporate capabilities.

Key messages

1. Change Management Strategy—critical to re-orientating the agency to the new operating state was having an overarching strategy/plan for the change. *AusAID 2010* (including updates and implementation plans) was invaluable in providing a 'blueprint' for transforming the agency to deliver on an expanded and more complex aid program. By providing the context for the transition, it was also pivotal to ensuring staff understood and were actively engaged in the change management process.

2. Organisational culture and values—AusAID was able to adapt best where it built on the strengths of existing systems and processes. By changing incrementally and building on what was already being used, rather than throwing out old practices in order to replace them with something completely different, AusAID achieved a smoother transition. A radical transformation would have required more time and resources, and introduced additional risks.

3. Stakeholder expectations—change had to happen while AusAID continued to deliver the aid program. It was beneficial to actively manage expectations of stakeholders while change occurred. In many cases, stakeholder expectations were a driver for change. AusAID incorporated stakeholder expectations into its governance framework and through the work of the DESC.

4. Communication—important, for success, at every level of the organisation and at every stage of the process. Best results were achieved when AusAID communicated:
   - with **consistent** messages;
   - **constantly**;
   - **consultatively**; and
   - (provided) **context**.

Appendix A

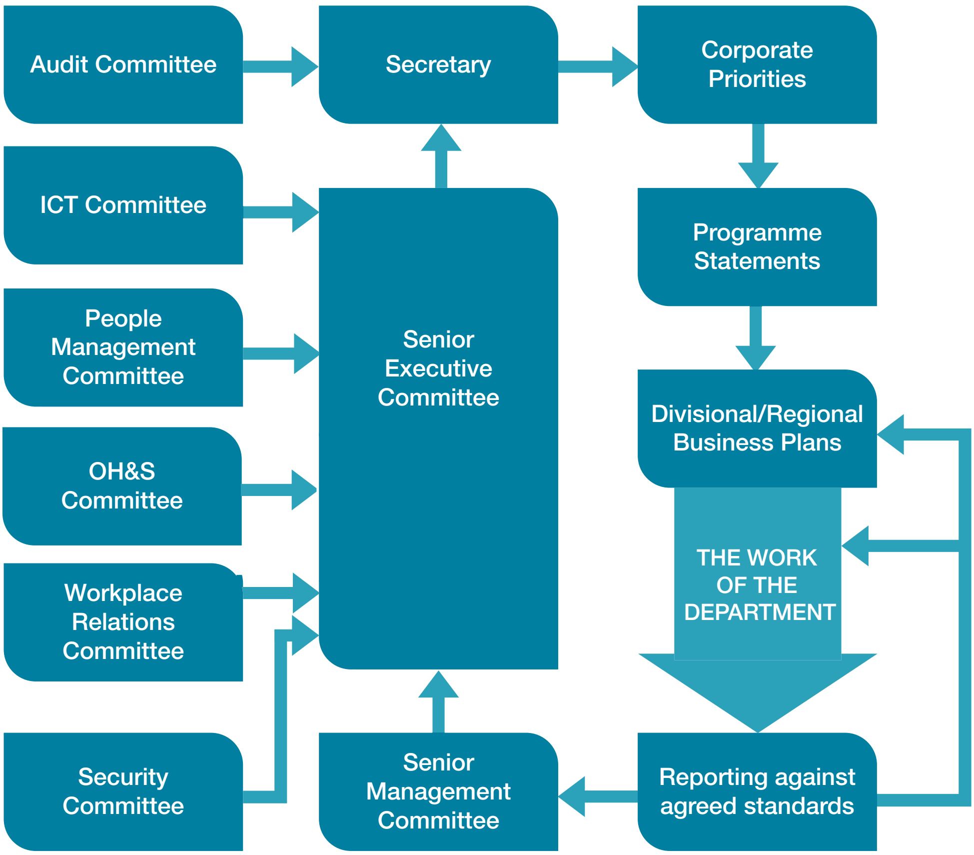
ANAO'S 'HOUSE OF PUBLIC SECTOR GOVERNANCE'[46]

Source: Adapted from a model developed by the Queensland Department of Transport in its *Corporate Governance Framework for Queensland Transport and Main Roads: Final Report*, July 2001.

46 ANAO, 2003, *Public Sector Governance, Volumes 1 & 2: Better Practice Guide*, Commonwealth of Australia, Canberra, p. 14. <http://www.anao.gov.au/uploads/documents/Public_Sector_Governance.zip>

Appendix B

GOVERNANCE AND PLANNING MODEL



Audit and Assurance Activity

Appendix C

EXAMPLES OF INTERNAL GOVERNANCE STRUCTURES

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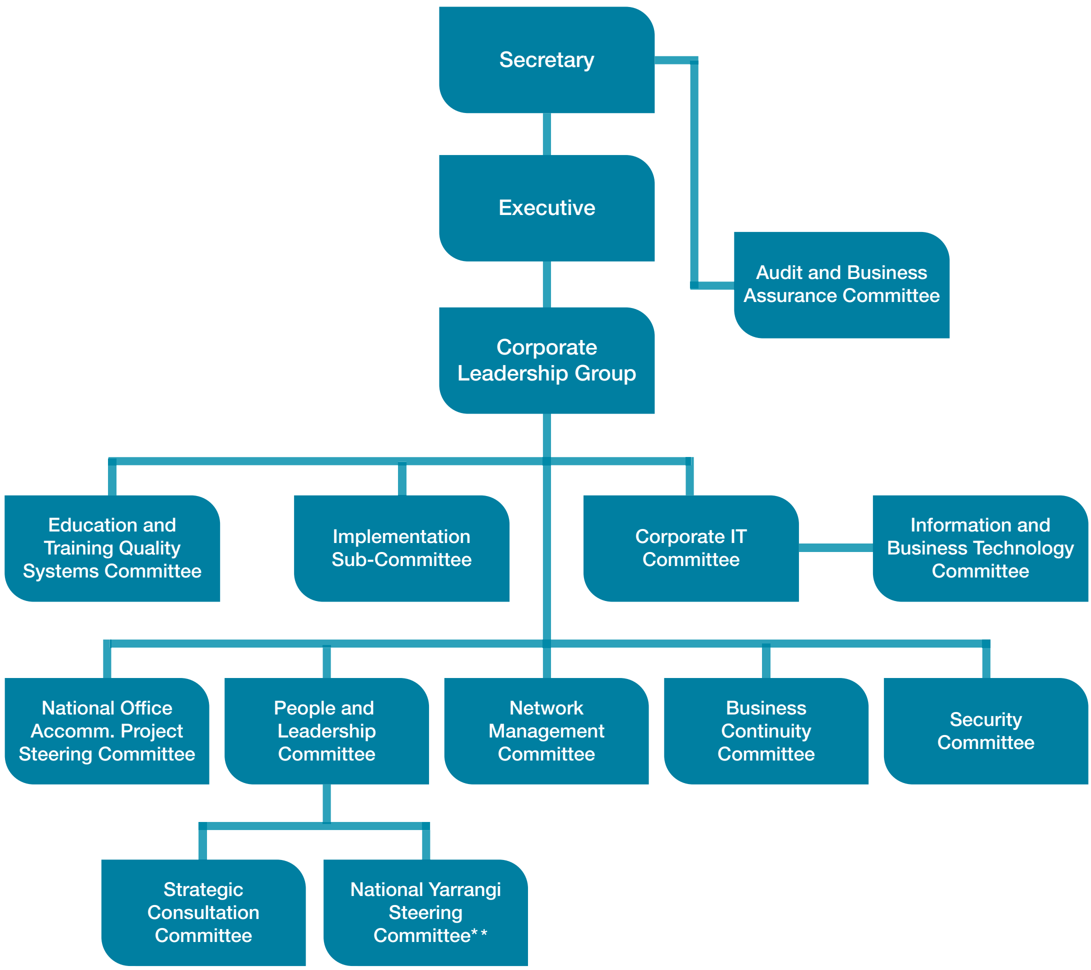
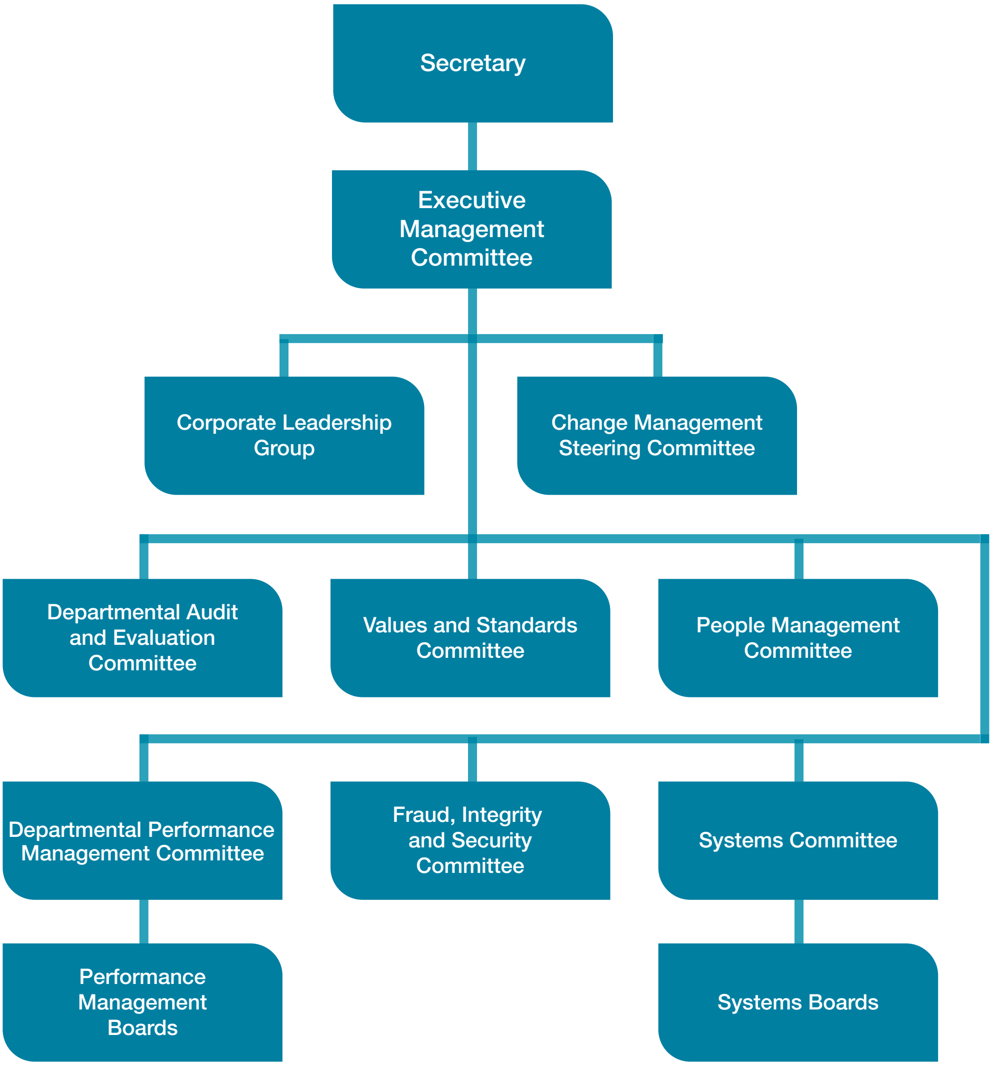


* accurate as at June 2007

** The National Yarrangi Steering Committee is the consultative group within DEST that leads the development of *Yarrangi*, DEST's Aboriginal and Torres Strait Islander Australian Recruitment and Career Development Plan.

Department of Immigration and Citizenship*



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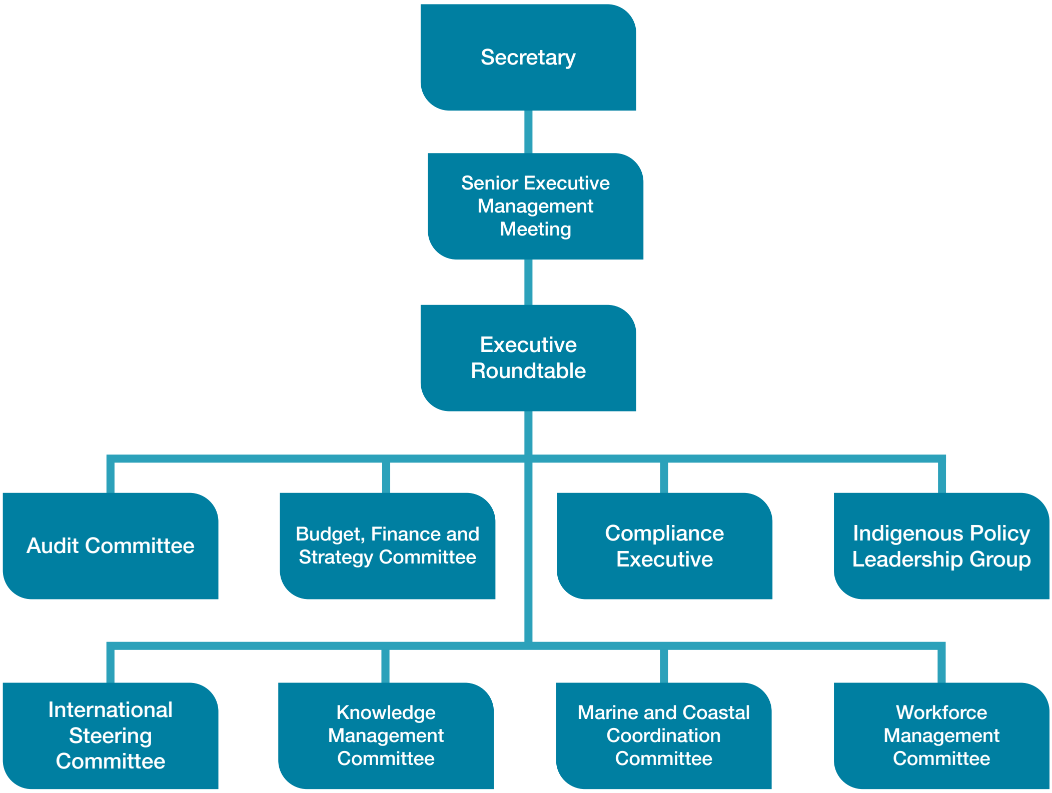

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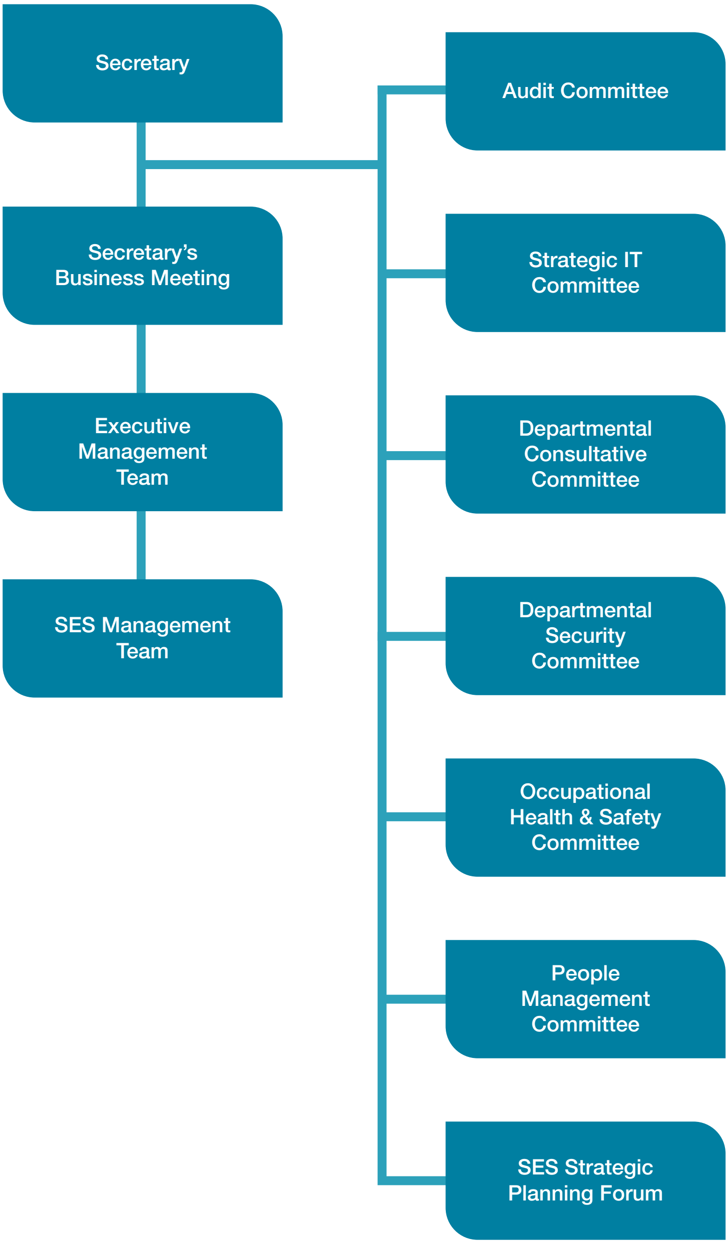
Department of Transport and Regional Services*



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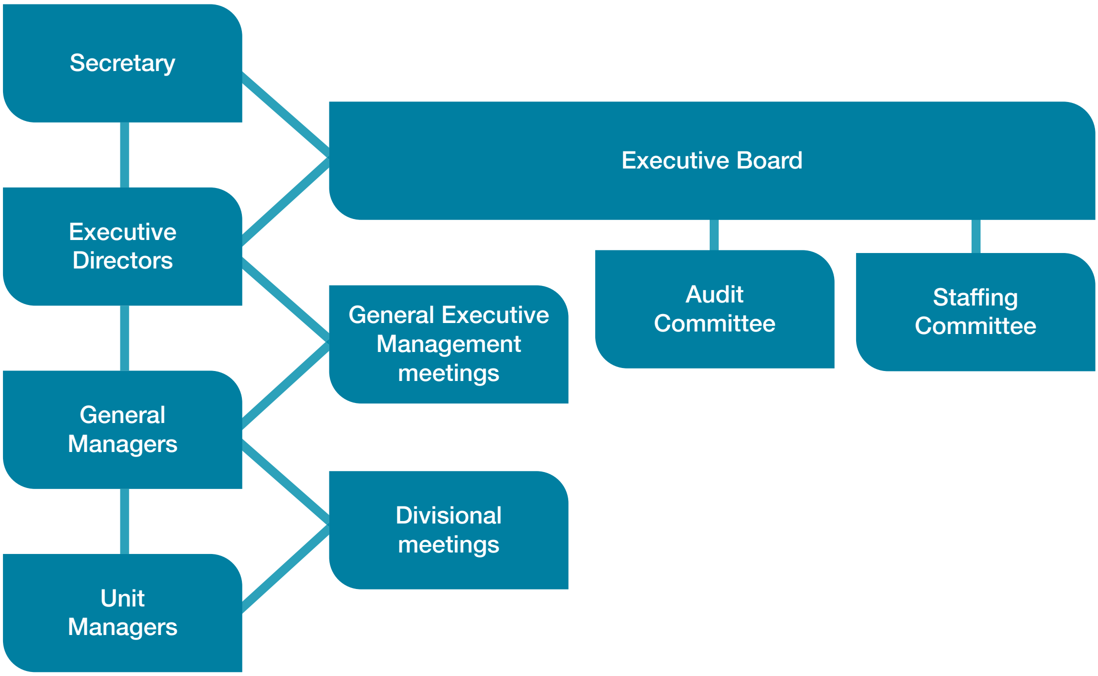
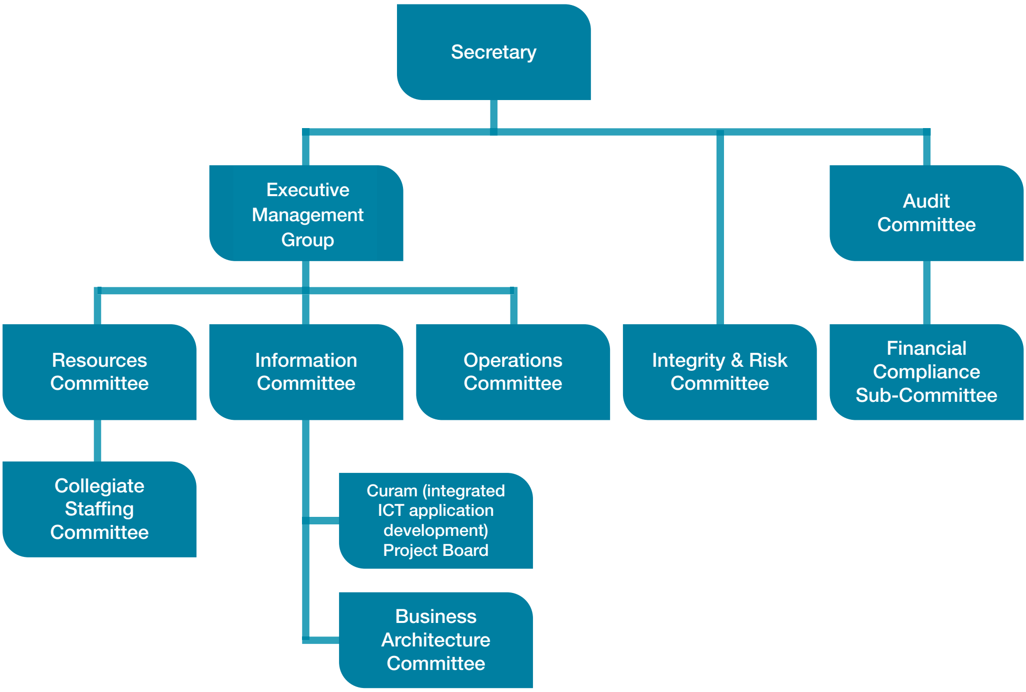
Department of the Treasury*



*accurate as at June 2007

Department of Veterans' Affairs*



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