

29 June 2012

Mr George Sotiropoulos
Assistant Secretary
Commonwealth Financial Accountability Review
Department of Finance and Deregulation
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By e-mail: cfar@finance.gov.au

Dear George

Commonwealth Financial Accountability Review

We welcome the opportunity to provide input into aspects of the Commonwealth Financial Accountability Review (CFAR). We commend the Hon. Senator Penny Wong, Minister for Finance and Deregulation for initiating this significant and timely review and the Department of Finance and Deregulation (Finance) on the thorough and detailed public discussion paper: *Is Less More? Towards Better Commonwealth Performance* (the CFAR paper).

We work extensively across Australian Commonwealth and State government departments and agencies. Our focus is in developing managers' financial literacy, planning and performance management skills and capabilities and in consulting on financial and performance frameworks. Our experience is that the vast majority of Australian Government senior executives, managers and staff look to apply Finance's accountability requirements diligently. These officers are responding to complex public policy questions and service delivery expectations while working to ensure the 'proper use' of resources.¹

Enhancing the culture of accountability should be at the heart of the review of the accountability framework. We cannot stress enough the need for a focus on accountability supported by an enterprise approach to risk management and integrated, flexible and simplified governance and accountability arrangements. We believe that less central prescription, with greater principles-based guidance will contribute to enhanced accountability across the Commonwealth.

¹ *Financial Management and Accountability Act 1997* (FMA Act) section 44.

We believe there is significant value in developing on the model of accountability initiated within the Department of Defence following their *Review of the Defence Accountability Framework* (the Black Review). This initiative should be extended across the Australian Government.

Developing a culture that is focused on accountability requires more than a framework, legislation, rules or guidelines. As the CFAR paper notes, central to managers being allowed to manage is that people are empowered to make decisions and held to account for them. Principles-based guidance from Finance on accountability, performance information and the proper use of resources will assist senior executives, managers and staff to be empowered to act, and to be held to account within their agencies, to their Executive, by central agencies, through external scrutiny, to the Parliament and the public.

As noted in the CFAR paper, there is no explicit reference to risk management within the existing framework. As a result, inconsistencies exist right across Commonwealth entities. We support Finance establishing risk management principles, overseen by Portfolio Secretaries and applied at the entity level within Portfolios. We believe this should be based on the principles of enterprise risk management. We note that a better practice model has been established by the Committee of Sponsoring Organisations of the Treadway Commission (COSO).²

We agree that political risk and public scrutiny can make the development of a positive culture of risk management difficult. We support developing a common view of risk and appropriate risk management strategies. We strongly support better reporting of risk management strategies by Portfolios to Parliamentarians and the public. We encourage consideration of using the Joint Committee of Public Accounts and Audit (JCPAA) to review the risk management approaches of Portfolios.

As noted in the CFAR paper, greater use of departmental secretaries in providing the leadership role within a Portfolio would enhance governance and would work to reinforce the shared responsibilities chief executives of FMA Act agencies and *Commonwealth Authorities and Companies Act 1997* (CAC Act) bodies have to account to Ministers for performance.

We also note the use of boards for departments within the United Kingdom,³ including recently the protocol that ministers should be the chair of the board. We believe this model identifies the shared responsibilities of Ministers and chief executives for achieving outcomes and results. Aligned with simplified administered and departmental classifications, this arrangement would enhance governance and accountability.

We strongly support retaining outcomes within the framework. The current framework would be enhanced with the adoption of whole-of-Government outcomes together with

² Committee of Sponsoring Organisations of the Treadway Commission (COSO), *Enterprise Risk Management — Integrated Framework*, 2004.

³ HM Treasury, *Corporate Governance in Central Departments: Code of Good Practice*, July 2005 and UK Cabinet Office, *Enhanced Departmental Boards: Protocols*, June 2010.

a more rigorous approach to performance reporting, including better use of key performance indicators (KPIs).

We strongly support integrating the financial and non-financial performance aspects of the framework. Integrated financial and performance information supports decisions about the use of scarce resources by senior executives, policy and program delivery managers. Developing the concept of a fully integrated framework will assist in the creation of a culture of accountability and performance. A fully integrated framework would also contribute to enhanced risk management.

Well developed KPIs provide a means of ensuring that financial management is closely and meaningfully linked to operational performance. KPIs across many agencies lack the necessary rigour in construction that would make them meaningful and allow an assessment of likely progress. The Australian National Audit Office has highlighted how 'SMART' KPIs can be used in enterprise-wide corporate plans to cascade SMART outcome-based measures within an agency, thereby enhancing accountability.⁴

The rules of 'spend it or lose it' and 'what you get next year depends on what you spend this year' have no place in contemporary public sector financial management. Flexible funding arrangements are needed to enable government to respond quickly to changing financial, economic and social circumstances, and accommodate 'connected Government' initiatives.

We support the concept of incorporating a regular review of Special Appropriations. The enhanced use of outcome and program SMART KPIs would enhance the review of the effectiveness of Special Appropriations. SMART KPIs that enable a recommendation of abandoning or altering a Special Appropriation would enhance transparency and accountability. We strongly support the Minister for Finance and Deregulation having powers over within-year re-allocations of budgets, with appropriate parliamentary scrutiny and reporting.

We strongly support the application of accrual budgeting and reporting – this is essential for accountability and transparency. We agree that there is a lack of understanding of administered and departmental classifications,⁵ and what appear to be inconsistencies in the application of the classifications. Finance has a role in developing stronger guidance on the application of the definitions of administered and departmental items, within the Commonwealth environment.

Our experience is that complexity around the application of the financial framework by agencies is not the result of the existing FMA Act or the *Financial Management and Accountability Regulations 1997* (FMA Regulations), CAC Act and supporting guidance. We observe that layers of added detail, complexity, management controls and procedures are often developed by agency staff. Much of what we see being added by

⁴ Australian National Audit Office, *Audit Report No.5 2011–12, Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*, Canberra, 2011, p. 45.

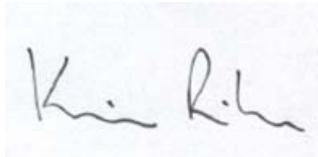
⁵ Department of Finance and Deregulation, *Is Less More? Towards Better Commonwealth Performance*, Canberra, 2012, p. 21.

agencies is, we believe, the result of a poor culture of accountability, an avoidance of risk, and a lack of understanding of the intent of the FMA Act, FMA Regulations, CAC Act and supporting guidance.

We strongly support Finance having a role in supporting skills and capabilities development across the Commonwealth. Members of our team were engaged by Finance between 1997 and 2001 to develop (and refine) a suite of accrual, outcome and output management training programs that were made available by Finance to all Commonwealth entities. This followed a detailed resource management training needs analysis and training strategy. We note that similar approaches have been applied within a number of State jurisdictions.

We would be very happy to meet with you and other Finance staff to address in more detail any of the recommendations included in this submission. Please feel free to contact me directly on 02 6230 5836 if you would like to discuss any aspect of our submission.

Yours sincerely



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Managing Director