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Advisory Group on Reform of Australian Government Administration  
Department of the Prime Minister and Cabinet  
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Dear Members of the Advisory Group

Thank you for the opportunity to make a submission in relation to **Reform of Australian Government Administration** by the Advisory Group on Reform of Australian Government Administration: Building the world's best public service.

### **About the Institute**

The Institute of Internal Auditors – Australia (IIA) represents more than 3,300 members across all states and territories. Our member base comprises individual members in audit and advisory roles in commerce, government, the audit and advisory firms and sole practitioners.

Internationally IIA Global has more than 160,000 members in 165 countries and territories and is the acknowledged authority in standards, certification, education, and research for the internal audit profession. The Institute has a *Code of Ethics* and issues the *International Professional Practices Framework* containing *The International Standards for the Professional Practice of Internal Auditing* which are collectively recognised as the global authoritative guidance on internal audit matters.

Please do not hesitate to call Todd Davies, Technical and Policy Director IIA on (02) 9267 9155, if you would like to discuss any of the matters raised in this submission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Chris', written over a white background.

Christopher McRostie  
Chief Executive Officer

## Why is IIA making a submission?

Traditionally internal audit was charged with reviewing the adequacy and effectiveness of internal controls in an organisation as well as reviewing the efficiency, effectiveness and economy of an organisation's programs and activities.

Today, internal audit is also the activity within an organisation which is asked to provide the governing body with an opinion on the design and operation of the governance and risk processes of the organisation. Risk is now viewed in its most holistic sense, with a focus on strategic and operational risk in addition to traditional disciplines of reporting and compliance.

The IIA in Australia works with practitioners, policy makers and other stakeholders across Australia at the Commonwealth, State and Local government levels as well as working with all sectors in private industry and the not for profit sector. As such, we have unique insights into the efficiency, effectiveness and economy of policy changes in different organisations and jurisdictions, and the emerging risks and challenges across different organisations and sectors.

Our members are at the front line of helping their organisations achieve success today and in the future, and hence as their professional body we have a vested interest in helping them to achieve outcomes systematically across all sectors and jurisdictions.

## Submission

The IIA's submission is focused on our core areas of expertise – governance, risk and control at the organisational level.

As set out in the Advisory Group's report, the public sector faces a number of challenges which are present at a far greater scale than in the past. Some examples of these are set out below.

**Table 1: Different times call for new approaches**

Challenge	Implications
<b>i. The world in which we operate is increasingly complex &amp; interconnected</b>	<ul style="list-style-type: none"><li>a. Management practices are required which understand and respond to the level of complexity that we are now facing. This may require new capabilities in the APS.</li><li>b. A siloed approach is unlikely to be able to solve a number of problems.</li><li>c. Approaches which do not embrace complexity and interconnectedness are likely to create unintended consequences and at an increasing scale and rate.<sup>1</sup></li></ul>

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<sup>1</sup> *Tackling Wicked Problems: A Public Policy Perspective*, Australian Public Service Commission, 2007

**ii. The conditions we operate in are increasingly operating at multiple scales (local, regional, national, regional, global) which cannot be solved by isolated responses**

- a. There is an increasing need for “joined up approaches” at all levels (local government, state government, federal government, inter-agency, community, NGOs and industry, and in some cases, international cooperation through forums like the G20).
- b. New capabilities may be required which allow the public sector to work in harmony with other sectors and leveraging the inherent capabilities of those other operating structures.

**iii. Many traditional risk and policy responses assume a static environment yet change is happening at an increasing rate and scale.**

- a. Greater understanding of emerging conditions at multiple scales is required as well as planning which allows for multiple scenarios as conditions emerge.
- b. Increasing agility is required.
- c. Risk management approaches must be focused on approaches that enable change and respond to change, rather than measures which resist change or reduce adaptive capacity. This may require reinventing many existing control processes which are taken for granted as being part of life in the APS.
- d. Solutions to strategic risk are likely to be innovation rather than controls which aim to provide certainty. Within this context, approaches will be required which encourage greater risk taking in a considered way, rather than risk aversion for fear of being penalised for making a mistake.

**iv. Public trust and integrity in a changing environment**

- a. Fraud arises when opportunity, incentive and motivation are present. With the current rates of change and efficiency drives, fraud risk is possibly at its highest levels ever. A focus on fraud risk management together with independent review of fraud prevention measures by an independent group such as internal audit is essential to effective fraud control.

Put simply, the policy and delivery challenges in the future are likely to be far greater than experienced in the past and a range of new capabilities are required to respond to this environment. Agility is required, and it is required to be implemented quickly.

Within this, we see some of the emerging capabilities in governance, risk and control at the organisational level as set out in Table 2.

**Table 2: GRC: Putting the right capabilities in place**

Capabilities required	Attributes
<p><b>i. Governance and risk approaches that enable rather than restrict change</b></p>	<p>a. Risk and governance mechanisms in place which allow for devolved risk taking in a considered way, specifically:</p> <ul style="list-style-type: none"> <li>i. Risk assessment and risk management embedded into change projects, strategy, policy and key decision making use of a framework such as that in the newly released ISO 31000</li> <li>ii. Effective oversight mechanisms which are independent of those responsible for decision making and implementation, specifically – independent audit and risk committees advised by independent functions such as internal audit</li> </ul> <p>b. Rules and procedures-based approaches limited to static environments and greater authority allowed at a devolved level (but only when the mechanisms as outlined above are put in place).</p>
<p><b>ii. A consistent approach to organisational governance and risk management across jurisdictions (Commonwealth, State and Local Government in each State and Territory).</b></p>	<p>a. Knowing that when decision making and delivery is devolved to other entities, that there are consistent approaches to risk management and oversight.<sup>2</sup></p>

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<sup>2</sup> In many jurisdictions, rules are often set centrally by central agencies which can limit flexibility at the agency level, yet agencies are able to decide on their approaches to risk management and governance, including whether they will pay “lip service” to these mechanisms, or put them in place at all.

## Conclusion

We are facing an increasingly complex and interconnected environment. Within this the public sector will be facing new challenges and constraints which will require innovative approaches and solutions.

Within this, there are two mechanisms to assist which the IIA believes are essential to achieving an effective, efficient and economical public service which is able to meet these challenges and manage risk in a considered way:

- i. Best practice risk management approaches which enable innovation and encourage considered risk taking rather than an aversion to risk.
- ii. Oversight functions which are independent of the decision making and implementation processes, in particular:
  - o Best practice internal audit, charged with oversight of the design and operation of the organisation's risk management framework across and within each agency and entity
  - o Independent audit and risk committees which can provide the independent insight required and ensure the independence of these functions
  - o Continued focus by internal audit on the efficiency, effectiveness and economy of the organisation's program delivery.

We note that some jurisdictions are more advanced than others in implementing these mechanisms, and that implementation has not always kept pace with the challenges facing the public sector. We also note that in some jurisdictions, these mechanisms are optional.

IIA's view is that these areas are too important to be left to the whim of any jurisdiction or entity in the public service, particularly during a period of change.

Thank you for the opportunity to present this submission. We appreciate that some of the concepts presented in this paper may not be core to members of the committee, and would welcome the opportunity to explain these more fully and take questions if desired.