



Changing models of governance in the public sector

*Is accountability keeping
pace with change?*

Introduction

Traditional models of public sector accountability are based on certain assumptions about the governance of the activities under review

Today's presentation:

- Explores those assumptions and models
- Shows how changes in the public sector began to outpace accountability/governance models
- Highlights some key accountability challenges for public sector entities - where these models have failed to keep pace with change



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Traditional models of audit & governance

Governance and institutional assumptions

- Organisation-based definition e.g. “authority”
- Ideas of ‘control’ from accounting profession
 - Multifactor approach AASB 127
 - Budget approval, appointment power, directions.

Context assumptions

- Public services provided by State
- Often monopoly providers
- Single owners/operators of public entities (‘single point accountability’)



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Changing context of service delivery

1980's + 1990's → "New Public Management"

Key trends:

- **Privatisation** e.g. sale of government business entities, rise of contracting out
- **Competition** e.g. government business units compete against each other/private sector, purchaser-provider models
- **Devolution** → Decisions on service delivery devolved from central/mega-Dept to localised or arms' length service delivery entities ('subsidiarity')



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Leading to...new types of governance models

1. **Joint delivery** e.g. 'joined up' government

- Different levels of government
- Different jurisdictions

2. **Partnership projects** → partnerships with private sector and NGOs far beyond just contracts for service

3. **New institutional structures**

- Companies limited by guarantee
- Subsidiaries
- Statutory authorities 'out of scope' of audit/accountability

4. **Board-led entities**



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Implications for accountability?

So...

- What are the implications for accountability from these changing models of public sector governance?
- Do they bring new risks? new management challenges?
- Do they require new kinds of audit and accountability mechanisms?

Recent audits suggest some issues for attention



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Part 2. Accountability challenges for new kinds of governance:

Some lessons from recent audits

1. Joint delivery

Governance can easily become confused and compromised in 'joined-up', networked or collaborative partnership projects, by:

- Lack of clarity on role and responsibilities
- Gaps in risk management

Early Childhood Development Services (May 2011)

- Ambiguity of roles (DEECD and local governments)
→ lack of clear accountability for performance
- Lead agency (DEECD) **didn't actively manage this risk** and should take stronger leadership in this



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1. Joint delivery (cont'd)

Revitalising Central Dandenong (May 2011)

- Cross government collaboration that underpins the initiative is not systematic and structured – significant delays have arisen.

Local Community Transport Services (March 2011)

- Partnership issues emerged at 3 of the 4 projects.
- Cross government coordination for the Transport Connections Project was limited and hindered achievement of objectives.



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2. Partnership projects

Private sector partnerships often exhibit accountability weaknesses and gaps, which can lead to missed opportunities to improve performance.

- This is especially concerning, as the audit mandate has only limited visibility of these issues.

Management of Prison Accommodation Using Public Private Partnerships (September 2010)

- Significant failures in contract design & management
 - Some contracts did not have clear performance standards
 - Performance management provisions were not fully utilised – stronger management could drive higher contractor performance



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2. Partnership projects (cont'd)

Towards a 'smart grid'—the roll-out of Advanced Metering Infrastructure (November 2009)

- Checks and balances that ordinarily apply to major State investments before rollout were not used.
 - Business cases not subject to scrutiny by central agencies
 - Cost benefit data was optimistic
 - Significant changes to the project plan did not trigger re-evaluation of the business benefits by Government.
 - An 'oversight gap' emerged between the public and private AMI project partners – the Dept played a minor (observer) role.



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2. Partnership projects (cont'd)

Victorian Life Sciences Computation Initiative (June 2011)

Probity and transparency questions arose from a close relationship between private sector partner and public entity – greater transparency would have helped.

- The University selected a service provider who had:
 - had significant prior involvement with the initiative
 - had no direct competition i.e. no other capable provider responded to the procurement.
 - offered a proposal that did not meet the stated requirements.
- The University did not recognise the probity risk



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3. New institutional structures

There is a trend for entities delivering public services to be created at 'arm's length' to government.

- Public entities, created by Acts – yet can be 'outside' key governance mechanisms.

These issues often come to VAGO's attention when audit access is restricted or challenged. e.g.

- *Public Transport Ombudsman*
- Community Health Centres
- Housing Associations
- University Subsidiaries
- Health ICT alliances
- *Public Health and Wellbeing Act 2008*



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4. Board-led entities

Board-led entities face systemic governance risks linked to their quasi 'independent' status.

Audits have found inadequate monitoring of Board operations, governance and compliance: although legislation requires they report directly to a Minister, the increasing scale and complexity of these entities can make this direct oversight relationship impracticable e.g.

Victorian Registration and Qualifications Authority (Oct 2010)

- Board slow to address crucial governance issues with an impact on the quality of vocational education and training providers.



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4. Board-led entities (cont'd)

Governance and Fraud Control within Selected Adult Education Agencies (June 2009)

- Repeated governance and integrity weaknesses with the operation of Boards in the adult education sector
- Led to failures to comply with legislation and policies and lost revenue/operational impact.
- Governance failures and poor oversight
- Inadequate records relating to significant decisions



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Conclusions

Public sector audits have revealed a range of governance challenges for new forms of service delivery.

These 'governance gaps' raised issues for:

- Performance of outsourced services
- Delivery of community benefits from government initiatives
- Quality of information underpinning decisions on major new projects
- Managing integrity and probity risks in procurement
- Quality of services and regulatory outcomes
- Compliance with legislation



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