



29 January 2021

Ms Lucy Wicks MP  
Chair  
Joint Committee of Public Accounts and Audit  
PO Box 6021  
Parliament House  
Canberra ACT 2600

Dear Ms Wicks

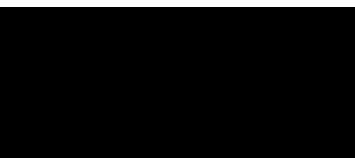
**Submission to the inquiry into governance in the stewardship of public resources:  
Inquiry into Auditor-General's Reports 11, 31, 39 (2019-20) and 2 and 9 (2020-21)**

Thank you for the opportunity to make a submission to the Joint Committee of Public Accounts and Audit inquiry into governance in the stewardship of public resources.

The attached submission addresses a number of issues relevant to developing management capability across the Australian Public Service to enhance governance in the stewardship and proper use and management of public resources. In preparing our submission we have drawn upon our significant experience of working with the Department of Finance, Australian Public Service Commission and many other Commonwealth entities.

I would be very happy to expand on the issues raised in our submission with the Committee or representatives of the Committee Secretariat. [REDACTED]

Yours sincerely



Kevin Riley FCA FCPA CPFA  
Managing Director

## **Capital Training Proprietary Limited submission to the Joint Committee of Public Accounts and Audit inquiry into governance in the stewardship of public resources**

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### **Focus of our submission**

In preparing our submission, we have focused on two of the Auditor-General's reports subject to the JCPAA inquiry into governance in the stewardship of public resources. These are Auditor-General Reports:

- No. 2 (2020-21) *Procurement of Strategic Water Entitlements*, and
- No. 9 (2020-21) *Purchase of the 'Leppington Triangle' Land for the Future Development of Western Sydney Airport*.

Both reports highlight common issues where key requirements of the Commonwealth Resource Management Framework including requirements of the *Public Governance, Performance and Accountability Act 2013* (the PGPA Act) were not demonstrated.

### **Key common issues identified – representing key capability gaps**

The Commonwealth Resource Management Framework governs how officials in the Australian Public Service (APS) use and manage public resources. The PGPA Act requires that accountable authorities promote the proper use and management of public resources<sup>1</sup>, where “proper” is defined in the PGPA Act as “efficient, effective, economical and ethical”.

Both reports identify the following common issues where the high standards of governance in the stewardship and proper use and management of public resources expected of the APS by the public were not demonstrated:

- inadequate and insufficient advice and information to decision-makers and delegates
- poor governance and risk management practices
- non-compliance with procurement requirements, including not demonstrating value for money, and
- inadequate arrangement for demonstrating probity and managing potential and perceived conflicts of interest.

Based on our experience working with a range of Commonwealth entities, we believed these issues are being faced broadly across the APS. This is demonstrated to us through our engagement with Commonwealth entities when:

- undertaking a training needs analysis, or
- designing, developing and facilitating management training programs.

The common financial management capability gaps we typically identify include:

- lack of awareness of the general duties of officials<sup>2</sup>
- misunderstanding of delegation arrangements
- limited financial literacy, including understanding of appropriations and awareness of key Budget processes
- ability to document the key criteria of value for money supporting procurement decisions, and
- budgeting and forecasting skills.

Building risk management capability across the APS is crucial to responding to current and future resource management challenges and the need to adopt innovation in policy

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<sup>1</sup> Section 15 of the *Public Governance, Performance and Accountability Act 2013*.

<sup>2</sup> Sections 25 to 29 of the *Public Governance, Performance and Accountability Act 2013*.

## **Capital Training Proprietary Limited submission to the Joint Committee of Public Accounts and Audit inquiry into governance in the stewardship of public resources**

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development, implementation and service delivery. For the first time, the 2019 APS employee census asked about current skill or capability gaps. More than half of respondents indicated that gaps exist, and significantly, more than twenty percent of respondents identified that gaps exist in risk management<sup>3</sup>.

### **Emerging capability gaps**

The impact of the COVID-19 pandemic, together with the Government's responses, have delivered substantial deterioration to the Government's fiscal position. The immediate effect will require substantial financial management skills to return to a more sustainable budget position. In addition, each of the Government's Inter-generational Reports has highlighted the long-term fiscal challenge and structural deficit of Australia's ageing population.

The Parliamentary Budget Office has recently identified the increasing use of alternative financing arrangements rather than direct payments to deliver policy outcomes<sup>4</sup>. These alternative financing arrangements typically involve the Government undertaking an equity investment, loan or guarantee. Using the 'balance sheet' to achieve policy outcomes introduces a new and different range of risks and typically requires a higher level of financial literacy and capability.

Responding to the immediate and long-term fiscal challenges, together with the increasing use of more complex alternative financing arrangements will require more sophisticated financial management skills and capabilities and a higher level of 'business acumen'.

Encouraging cooperation with others<sup>5</sup> and being world-class at collaboration with external parties will require the APS to:

- break down bureaucratic silos and hierarchies that constrain capacity, and
- be more joined-up internally and flexible in responding to challenges and opportunities<sup>6</sup>.

Moves to increase cooperation and collaboration across the APS and with external partners demand a deeper understanding of shared risks. Shared risk is a crucial element of policy, program and service delivery, particularly in a federation. Failing to identify and manage these risks often impacts a broad range of stakeholders, including the wider community<sup>7</sup>.

The *State of the Service Report 2018-2019* identified that fifty-eight percent of entities participating in Comcover's 2019 benchmarking program indicated that the accountability for managing shared risk was not clearly understood. Less than half of respondents included details of shared risk in their management reports<sup>8</sup>.

### **Conclusion**

While not representing systemic breakdowns in control across the APS, we believe that many of the issues identified within the two Auditor-General's reports we focused on are more widespread across the APS. These issues do represent existing capability gaps in the high

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<sup>3</sup> Australian Public Service Commission (2019) *State of the Service Report 2018-2019*, p.128.

<sup>4</sup> Parliamentary Budget Office (2020) *Alternative financing of government policies: Understanding the fiscal costs and risks of loans, equity injections and guarantees*, p.1.

<sup>5</sup> Section 17 of the *Public Governance, Performance and Accountability Act 2013*.

<sup>6</sup> The Hon. Scott Morrison, Prime Minister of Australia, Speech, Institute of Public Administration Australia, Parliament House, Canberra, 19 August 2019.

<sup>7</sup> Australian Public Service Commission (2019) *State of the Service Report 2018-2019*, p.39.

<sup>8</sup> Loc.Cit.

## **Capital Training Proprietary Limited submission to the Joint Committee of Public Accounts and Audit inquiry into governance in the stewardship of public resources**

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standards of governance in the stewardship and proper use and management of public resources expected of the APS by the public.

We also believe that there are significant emerging capability gaps in financial literacy and management, business acumen and risk management, particularly managing shared risks.

Finance has previously played a key role in contributing to the APS' financial management capability development. Examples of Finance taking a leadership role in financial management capability development include:

- developing and making available to all Commonwealth entities financial management training materials and an approved panel of providers through the *Accrual Budget Project*
- developing the *Budget and Finance Essentials*, *Financial Management and Budget*, and *Resource Management and Budget* training programs, and
- in conjunction with the Australian Public Service Commission (APSC), developing a half-day financial management training program, *Mastering Your Financial Environment*, specially aimed at Senior Executive Service officials, delivered by the APSC as a publicly available learning and development program from 2006 through to 2011.

However, these financial management capability development programs are no longer supported by Finance.

*Our Public Service, Our Future. Independent Review of the Australian Public Service* has highlighted that Finance should support entities to:

- provide more robust advice to government on effectiveness of spending
- adopt cross-portfolio funding and more agile and responsive movements of funds to respond to shifts in needs or demands, and
- leverage and manage the budget balance sheet more effectively<sup>9</sup>.

We agree with this recommendation and believe it should be extended. We believe there is an opportunity for Finance to once again take a leadership role in supporting the development of financial management capability across the APS.

Finance does currently support a broad range of risk management education through Comcover, the Australian Government's self-managed insurance fund. This is in support of the PGPA Act requirement on accountable authorities to establish appropriate systems of risk management and internal control<sup>10</sup>, and the *Commonwealth Risk Management Policy*<sup>11</sup>.

We believe there is an opportunity for Finance to leverage its existing risk management education program to include financial management capabilities. Adopting the proven and established model of Finance's risk management education program would be a practical and efficient approach and may also contribute to better integrating financial management and risk management activities across the APS.

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<sup>9</sup> Department of the Prime Minister and Cabinet (2019) *Our Public Service, Our Future. Independent Review of the Australian Public Service*, p.337.

<sup>10</sup> Section 16 of the *Public Governance, Performance and Accountability Act 2013*.

<sup>11</sup> Details of Finance's risk management education program are available at:  
<https://www.finance.gov.au/government/comcover/education>.

## **Capital Training Proprietary Limited submission to the Joint Committee of Public Accounts and Audit inquiry into governance in the stewardship of public resources**

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### **About Capital Training College and Kevin Riley**

Capital Training Proprietary Limited (trading as Capital Training College) works extensively across Australian Commonwealth and State government departments and agencies. Our focus is on developing managers' knowledge, skills and capabilities in financial literacy and financial management, risk management and internal control, planning and performance management and procurement and contract management.

Capital Training College has been a provider of financial and budget management training for the Finance and the APSC. This includes being a provider of Finance's past *Budget and Finance Essentials*, *Financial Management and Budget*, and *Resource Management and Budget* training programs.

We have also worked with Finance in the design, development and facilitation of Comcover's risk management education program since 2012.

Our Managing Director, Kevin Riley was a contractor to Finance from 1996 to 2001, initially developing a resource management training strategy for Finance's *Accrual Budgeting Project*, delivering that training program within Finance and later working within Finance's Budget Group during the first two years of accrual budgeting. Kevin Riley facilitated the APSC *Mastering Your Financial Environment* Senior Executive Service training program.

Kevin Riley has had a long involvement in public sector financial management including contributing to a number of Joint Committee of Public Accounts and Audit (JCPAA) and its precursor Committee, the JCPA, dating back to Report No. 338 *"Accrual Accounting – A Culture Change"* released in August 1995.

Kevin Riley is a National Councillor and Treasurer of the Institute of Public Administration Australia.