



## Governance Review for the Australian Trade Commission (Austrade) by the ANZSOG Institute for Governance (ANZIG) at The University of Canberra<sup>1</sup>

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### Executive summary

Over the past 12 months Austrade has been undertaking significant reform and refocussing of its business goals and operating model. As part of this process Austrade commissioned the ANZSOG Institute for Governance (ANZIG) to:

1. assess its governance framework (including changes implemented over the past 12 months);
2. identify practical recommendations on how Austrade can further strengthen the current framework; and,
3. identify recommendations for the development of integrity (and performance) indicators which will assist Austrade in measuring the effectiveness of its governance framework in the context of its new business objectives.

At the time of the review (September 2011) the implementation phase had commenced but had not been completed, and it was recognised that these significant reforms would take some time to bed down across the organisation. A summary of the governance changes implemented during 2010 and 2011 is provided at Attachment A. These changes included a new corporate structure which became operational on 1 October 2011.

ANZIG assessed the governance arrangements that had been developed and adopted using the framework identified in the ANAO *Better Practice Guide on Governance*. In recognition that some aspects of implementation and the institutional absorption of the reforms were not yet complete across the agency, ANZIG also examined the dynamics of the change process. A model of the framework used to assess the strategic management of values and ethics is provided at Figure 1 below.

ANZIG found that Austrade's governance arrangements and structures developed through the reform process were of a high standard and in certain areas reflect leading international practice particularly in the area of anti-corruption training. They were appropriate, comprehensive and well supported through documentation, professional development and communication with staff. In sum, the key findings from the application of the assessment framework demonstrate that the governance elements of 'policy setting' (see Box B), and 'diffusion' (see Box D) had been very well executed and are in place – these aspects are able to be more rapidly deployed as they are less diffused (i.e. centrally developed) and codified (easily documented and communicated).

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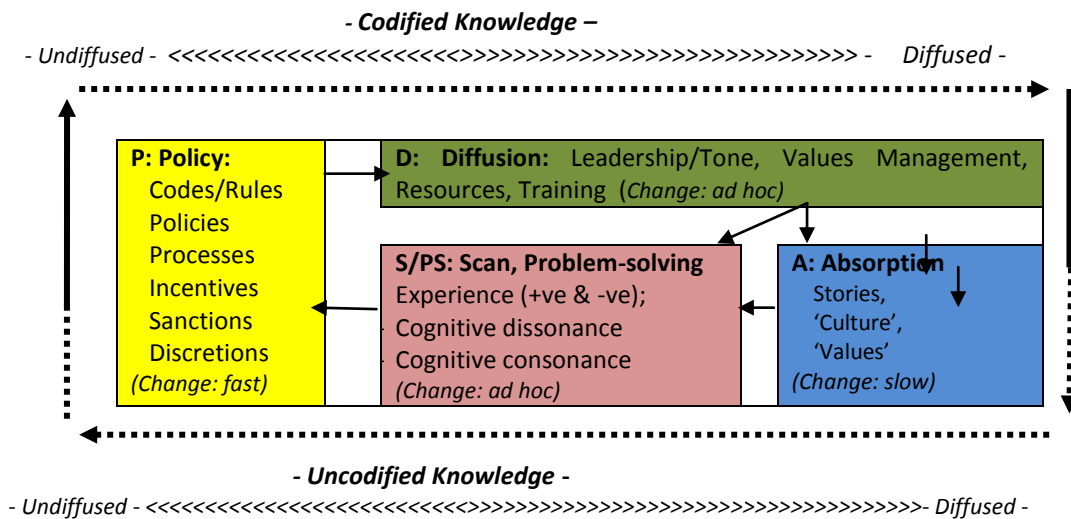
<sup>1</sup> Compiled by Bill Burmester, Mark Evans and Howard Whitton.

The remaining two areas of activity subject to evaluation through this assessment model take longer to bed down in any organisation as it takes time for experiences under the new policy and procedural arrangements to accumulate, and for attitudes, practices, and values to be absorbed. Similarly, ANZIG’s assessment of Austrade under the ANAO framework shows that elements of the governance framework reflecting better national and international practice were largely in place, building as they had from the well developed management and control arrangements already existing in Austrade.

The remaining area for further development identified in the review was the continuing need to deploy measures and strategies to ensure what we term the institutional ‘absorption’ (see Box A) of integrity norms and values which is typically the most problematic area of change management for any organisation.

To build on the high quality work already undertaken by Austrade in relation to this aspect of the change process, integrity indicators that can allow for reliable measurement of the institutional absorption of integrity norms and values are presented in the report, as is the identification of potential “barriers” to absorption that might be removed or reduced. ANZIG can provide further advice on these aspects of integrity monitoring and evaluation as the implementation of the organisational changes flowing from the broader Austrade Review continues.

**Figure 1. The strategic management of values and ethics<sup>2</sup>**



<sup>2</sup> *Strategic management of values and ethics*, Howard Whitton, 2009. The model reflects the influence of Max Boisot and Christopher Argyris in relation to the management of 'values' in the context of organisational learning.

## List of Recommendations:

1. *Given the long tenure of the existing provider, it is recommended that the Executive takes advantage of the next procurement process to secure the services of an auditor which can bring a new approach, innovation in evaluation design and, by implication, greater independence to the audit workplan.*
2. *It is recommended that Austrade makes the development and implementation of a strategic stakeholder management framework an immediate priority for managing the period of transition to the new business approach. However, this should be achieved in a way that augments rather than diminishes the new business approach.*
3. *It is recommended that the regular reporting regime for the executive meeting is maintained.*
4. *It is recommended that the Executive closely monitor the effectiveness of the business partnership between the On-line service area and the ICT area over time as online services continue to develop.*
5. *It is recommended that the Austrade Ethics Committee be assigned responsibility for providing assurance to the Executive, on a regular basis, that the adopted integrity indicators and related monitoring strategies are effective in detecting and responding to challenges to the organisation's integrity, including the ethical conduct of Austrade officials and agents.*
6. *To evaluate whether integrity outcomes are being achieved, it is recommended that Austrade select two critical integrity indicators each year for detailed evaluation.*
7. *It is recommended that the Executive maintain a range of active strategies and practices to shape the internal operating environment, using the integrity indicators developed for this purpose, as well as strategies such as staff surveys and assessing effectiveness of capability development strategies.*
8. *ANZIG also recommends that the Executive considers whether there would be value to the agency in developing an in-house policy framework for building workplace integrity, setting down the objectives in this area, the approach adopted and the roles and responsibilities allocated. This could include guidance on the use of indicators and the practices for educating staff.*

## **A: INTRODUCTION**

### **A.1 Background**

Over the past twelve months, the Australian Trade Commission (Austrade) has undertaken a range of actions to improve its governance framework. Some of this work has flowed from the review of Austrade, the outcomes of which were announced by the Minister for Trade in May this year. Prior to the implementation phase of the findings of the review which included the implementation of a revised management structure, Austrade commissioned the ANZSOG Institute for Governance (ANZIG) to provide an audit of its overall governance framework. The objective of the audit was to provide both practical suggestions for any further actions to build on Austrade's governance reform work to date, and assistance in ensuring that the current framework reflects best international practice.

Austrade is the Australian Government's trade and investment development agency. Austrade assists Australian companies to succeed in international business, attracts productive foreign direct investment into Australia and promotes Australia's education and training sector internationally. Austrade also has consular management responsibilities in a number of international locations and provides passport services, travel advice, contingency planning and crisis response in those areas.

Austrade was established in its current form, under the Australian Trade Commission Act 1985, as a statutory authority. Initially, the aim was to bring together the functions of the Trade Commissioner Service, elements of the then Department of Trade, the Australian Overseas Projects Corporation, the Export Development Grants Board and the Export Finance and Insurance Corporation into a 'one stop shop' to support Australia's export effort. Since that time there have been fundamental shifts in the global and Australian economy. Globalisation, changes in technology and the means of doing business internationally have seen the nature of barriers faced by companies in international markets also change.

Furthermore, Austrade's strategic direction and disposition of resources has moved through several cycles. The abolition of the former business based Board in 2006 following the Uhrig reforms saw Austrade's governance arrangements brought under mainstream public sector frameworks. More recently, the Government has allocated a range of additional functions to Austrade – including responsibility for attracting productive foreign direct investment; industry-focused trade and investment strategies (clean energy, automotive); the Australia Unlimited nation branding program; and the international marketing of Australian education.

In 2010, the CEO of Austrade initiated an overall review of the organisation – its goals, its business model and its operations – to adapt to the challenges that it is facing both overseas in a changing international environment, and on-shore in response to emerging domestic imperatives. The key dimensions of this process of adaptation include: transforming the structure of Austrade from a regionally based model to ensure an overseas presence to a market-based segmentation approach linked to global business strategies (trade, investment, education) and an associated shift in the business model to one of limited, scaled and targeted assistance. Both represent substantial and fundamental shifts in the strategic direction of the organisation. Changes have also included responding to anti-bribery requirements and the creation of an Ethics Committee as part of the organisational goal of high integrity and ethical behaviour. In conjunction with the corporate renewal of the organisation over the past twelve months Austrade has undertaken a range of actions to improve its governance framework. The details of this process of reform are set out at Attachment A.

## A.2 The scope of the review

The deliverables for this review are:

1. To assess Austrade's governance framework (including changes implemented over the past 12 months);
2. identify practical recommendations on how Austrade can further strengthen the current framework; and,
3. identify recommendations for the development of integrity (and performance) indicators which will assist Austrade in measuring the effectiveness of its governance framework in the context of its new business objectives.

In undertaking the above tasks ANZIG was asked to consider any issues or aspects of Austrade's governance structure that they consider may improve Austrade's framework.

## A.3 Approach

The fundamental proposition that ANZIG has adopted in assessing governance is that effective governance of a high performing organization in which integrity and ethical behaviour are valued arises from a combination of three dimensions, all of which need to be present: appropriate (for purpose) formal structures, sound practices and, importantly, inculcated cultural behaviours. From these three aspects, a series of "good practice" principles and indicators can be derived to assist in developing and deploying suitable arrangements for a particular organization, and against which those arrangements can be reviewed and assessed.

The existing internal governance arrangements of Austrade were examined with these three perspectives (formal structures, operational practice, and executive and staff perceptions) in mind through assessment of documentation and interviews with a range of key Austrade personnel. In addition, a workshop with a number of staff was convened to begin the task of co-designing integrity indicators which, drawing on best international practice, would be appropriate to the roles and responsibilities of Austrade.

The assessment undertaken was based on the framework for good public sector governance identified in the ANAO's 2003 *Better Practice Guide* in the form of their "*House of Good Governance*"<sup>3</sup>. This defines six aspects of governance, and the practices associated with each to create a well governed organisation. The results were mapped against an assessment matrix of sound governance and integrity principles and organizational goals and outcomes to determine their fitness for purpose and effectiveness. In recognition that some aspects of implementation and absorption of the reforms were not yet complete across the agency, ANZIG also examined the dynamics of the change process. The evaluate model that we used to assess the strategic management of values and ethics (the Whitton model) is provided at Figure 2 below.

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<sup>3</sup> ANAO, "Public Sector Governance - Better Practice Guide", 2003.



## A.5 Methodology

In undertaking a review of organisational governance, ANZIG aims to assess the extent to which governance arrangements facilitate the achievement of organisational goals. For Commonwealth public sector entities, this involves three areas of activity: (a) achievement of business goals (performance), (b) satisfying public administration requirements (conformance), and (c) establishing an effective operational culture for the agency (commitment). These are the outcomes to which sound governance practice is directed, and progress to their achievement assessed.

The first two aspects are identified in the ANAO's *Better Practice Guide on Public Sector Governance*<sup>5</sup> as the two governance requirements of **performance** and **conformance** respectively. In large part, these are assessable from the formal structures, policies, arrangements, and reporting arrangements documented within Austrade (that is, an assessment of the 'codified knowledge' applied to the operations of the entity, as identified in the Whitton model). Importantly, **conformance** includes not just meeting financial and reporting requirements of Commonwealth agencies under financial administration legislation (which include the need for effective, efficient and *ethical* use of public resources), but also the requirements under the Public Service Act, 1999 and the associated values and Australian Public Service (APS) *Code of Conduct*.

The third of these aspects, namely creating a **committed** organisational operating environment is particularly important for a service delivery organisation which involves less tangible and less capital intense "production" of outputs and where, consequently, the motivation, performance and ethical standards of staff are crucial for the achievement of the other two aspects. Generally, too often it is discounted or ignored as a key governance issue despite its inclusion as the foundation level in the ANAO's "House of Governance". It is also more difficult to assess as it refers to actual practice on the ground by the staff of the organisation (that is '*diffused*' and '*un-codified*' in the Whitton model).

**A5.1 Achievement of business goals (performance)** is usually assessed against organisational mission and specific KPIs by examining the adequacy, alignment and understanding of these Indicators within the organisation. Thus, the activities reviewed included:

- Completeness and alignment of KPIs against mission and areas of actual influence
- Measurability of KPI outcomes and avoidance of misguided incentives
- Management structural alignment/ role clarity and avoidance of duplication and redundancy in delegated authority
- Adequacy of business practices such as risk management
- Level of capability within the agency to effectively deliver business outcomes

**A5.2 Public administration requirements (conformance)** need to be met under legislation and policies applicable to public bodies, and go to issues such as:

- Compliance with legislation and directives across areas of activities
- Structures for operationalising requirements within the organisation
- Assurance activities embedded in the agency
- Organisational specific requirements such as of policies, projects and audit recommendations

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<sup>5</sup> ANAO "Public Sector Governance - Better Practice Guide" 2003.

**A5.3 Organisational culture goals (commitment)** are specific goals identified and adopted by the organisation in setting priorities in the creation of its internal operating environment. As the ANAO's Guide says "It is important that leaders demonstrate an active commitment to the principles of good public sector governance outlined earlier (including accountability, openness, integrity, stewardship and efficiency). It is also vital that staff adopt good governance practices through their own behaviour and performance." Areas of examination here include:

- The setting and communicating the strategic plans for the organisation
- Adoption of organisation improvement strategies;
- Creating a respectful/innovative/energised/values-based workplace
- Increasing employee work satisfaction
- The existence of discovery and learning strategies for unacceptable or unlawful behaviours

The ANAO Guide continues "As it is difficult to objectively measure factors such as leadership, ethics and organisational culture ...(and it is) often only through significant failures (for example, corrupt behaviour, staff or management acting contrary to the interests and objectives of the organisation, or through high staff turnover in critical work units) that problems in these areas are detected."

The co-design of a suite of integrity indicators with Austrade aims to provide a more sophisticated and discriminating assessment approach for Austrade to use for this aspect of performance management, rather than depending on the 'failure indicators', acknowledged in the ANAO Guide.

To provide a more detailed structure to the report, in the first instance, the extent to which Austrade is succeeding in establishing the **performance** and **conformance** aspects of effective governance practice for the organisation are assessed through the components of good practice identified in the ANAO's "House of Good Governance".<sup>6</sup> The matrix outlined below in Table 1 sets out these components. It is noteworthy, that these components effectively cover the same range of issues described in the APSC's "Building blocks for building better governance".<sup>7</sup>

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<sup>6</sup> ANAO, "Public Sector Governance - Better Practice Guide" 2003.

<sup>7</sup> APSC, "Building Better Governance" 2007.



**Table 1. The ANZIG assessment framework adapted from the ANAO’s “House of Governance”<sup>8</sup>**

<b>ANZIG Level</b>	<b>“House of Governance” Component</b>	<b>Possible Activities/ Evidence</b>
Strategic	<b>6: Self assessment/reflection</b>	<i>Strategic Evaluations Evaluative framework for identification of compliance and critical incidents</i>
Organisational	<b>5: Information, analysis and decisions</b>	<i>Record keeping Elevation practices for emerging issues Reporting practices</i>
	<b>4: Sound Operation/business execution</b>  <i>Accountabilities and authorities Controls Planning and budgeting Management and measuring performance Review and evaluation External reporting</i>	<i>Statutory and Policy frameworks Control frameworks Planning strategies KPIs Program evaluations Annual reports, PBS</i>
Operational	<b>3: Risk identification and management</b>  <i>Organisation level/Strategic Operational activities Financial Safety &amp; Security (inc DRP)</i>	<i>Risk Management Plan Audit Committee oversight Actions to address findings</i>
	<b>2: Engagement of stakeholders</b>  <i>Plans and Actions Measurement</i>	<i>Engagement strategies Stakeholder surveys</i>
Cultural	<b>1: Internal environment</b>  <i>Leadership Ethics Integrity Values</i>	<i>Policies/Guides Training activities Staff surveys Priority activities plans</i>

<sup>8</sup> ANAO “Public Sector Governance - Better Practice Guide” 2003

## **B: FINDINGS on Performance and Conformance (Components 2 to 6)**

### **Level 2: Engagement with stakeholders**

Austrade has conducted regular stakeholder surveys over an extensive period to assess performance and standing with their clients. It was recognised, however, that the results of these past surveys may have tended to have been unduly favourable given that the respondents have been recipients in large part of subsidised services from Austrade. Further, under the refocussed business model, Austrade has recognised a new approach will need to be adopted in monitoring its external environment. Austrade was also able to point to collaborative service delivery models they have used in the past to deepen engagement with stakeholders, including detailed engagement as part of the reform process. With regard to the planning and adoption of the new business approach, Austrade undertook, and plans further strategies for engaging with and explaining to their clients the changes to the direction of its services. Industry bodies were included in the consultations undertaken as part of the reforms and a positive reaction was judged to have been achieved. However, senior managers were also keenly aware that once the new model and services were rolled out, greater stakeholder sensitivity may be required.

The *Client Services Handbook* is regularly revised and promulgated across the network. As part of the regular business planning cycle within Austrade, business areas compile a stakeholder communications plan, which is reviewed by the leadership group as part of the planning process. While this approach has the potential to ensure consistent strategic messaging of Austrade's directions and plans, at this stage of the reforms, an overall formal strategic plan for stakeholder engagement was not yet available. Such planning, which is essential to successful carriage of reforms, also need to have a dynamic and evolving approach so that it can respond to issues that emerge, or changes in the environment to which Austrade needs to respond.

***It is recommended that Austrade makes the development and implementation of a strategic stakeholder management framework an immediate priority for managing the period of transition to the new business approach. However, this should be achieved in a way that augments rather than diminishes the new business approach.***

### **Level 3: Risk identification and Management**

Austrade demonstrates mature risk management arrangements. Its *Audit and Risk Committee* (ARC) has functioned effectively over an extensive period and has capable highly experienced external members. The Committee has an existing charter, reviewed annually and which is currently under review in light of changes to the FMA regulations and the ANAO Better Practice guide. The ARC membership is being refreshed for the current financial year. The ARC was considered by senior managers to cover a broad range of audit, control, performance and risk management issues, and was not narrowly focussed on financial controls.

The review noted the unqualified financial statements for the current year had been completed in a most timely manner and no matters had been raised by the ANAO in their preparation. It also noted that Austrade, in line with best practice, had recently engaged the Institute of Internal Auditors to review

their internal audit arrangements and practices. A positive assessment and endorsement of the internal audit function was delivered by the Institute.<sup>9</sup>

It was also noted that there has been a lengthy period of stability in the contracted internal audit provider (20 years) that has provided a continuity of review and a deep understanding of the organisation from an audit perspective. In the report *Australian Auditor Independence Requirements - A comparative Review*, The Department of the Treasury<sup>10</sup> noted the requirements of auditor independence, specifically “*The IFAC Code notes that using the same senior audit personnel on an audit engagement over a long period of time may create a familiarity threat. One of the safeguards that the IFAC Code recommends to address this threat is to rotate senior audit personnel off the audit team*”.

Continued use of a stable audit team over a lengthy period introduces risks to the maintenance of independence and less opportunity to introduce of fresh methodologies to maintain performance and effectiveness of the audits undertaken. Introducing a “fresh pair of eyes” is very desirable approach to audit activity and a well established principle to which the Treasury advice refers. ANZIG considers that thought should be given to these concerns in the framing of the requirements when Austrade next engages in procurement processes for internal audit services.

***Given the long tenure of the existing provider, it is recommended that the Executive takes advantage of the next procurement process to secure the services of an auditor which can bring a new approach, innovation in evaluation design and, by implication, greater independence to the audit workplan.***

The corporate risk planning documents provided to the review were well structured and showed a high level of maturity. The plan has three levels (strategic, major initiatives and Austrade wide/ operational risks). It includes a range of treatments for identified risks, identifies responsible officers and sets target completion dates. (Each business area within Austrade in turn has their own operational risk plans.)

The corporate risk plan was current for the 2011/12 year and had been scrutinised by the Audit and Risk Committee as part of their remit. As part of the reforms to Austrade, the risk planning framework has been updated and integrates risk planning within an integrated corporate governance model comprising strategic planning, financial and resource planning, management reporting and assurance management. The plan is to be informed by and considered in conjunction with corporate priority setting, the fraud control plan and its insurable risks strategy. It should be noted that the issue of integration of internal audit into the organisation’s governance processes was identified by the Institute of Internal Auditors Australia as an area of potential improvement and strengthening.<sup>11</sup> Moreover, to compliment assurance management, ANZIG considers that assurance practices and culture are important considerations in risk planning and these are discussed in Section D of this report.

Several aspects of the *2011/2012 Risk Plan* are worth comment. The first listed strategic risk identified is reputational damage and responsibility and is allocated appropriately to the Senior Executive Group. The seventh listed Austrade-wide risk is failure to maintain the integrity and ethical conduct of Austrade’s activities. Clearly these issues have been identified as important to the agency and its leadership. The

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<sup>9</sup> Institute of Internal Auditors, Australia – Quality Assessment of Internal Audit at Australian Trade Commission (Austrade), 2011.

<sup>10</sup> Department of the Treasury, 2006 *Australian Auditor Independence Requirements - A comparative Review* p.17.

<sup>11</sup> Institute of Internal Auditors, Australia – Quality Assessment of Internal Audit at Australian Trade Commission (Austrade), 2011.

mitigating treatments for these areas involve a number of communication and training and testing strategies, but do not include additional lead indicators for the leadership to monitor compliance with integrity standards, and to detect and respond to any emerging integrity failings from an organisational perspective.

One of Austrade's governance enhancements has been the establishment of an Ethics Committee with an independent chair. The Committee's role is to include: promoting high standards of ethical behaviour throughout Austrade; providing clear and consistent guidance on standards of conduct; evaluating the effectiveness of Austrade policies and practices in relation to ethical behaviour.

***It is recommended that the Austrade Ethics Committee be assigned responsibility for providing assurance to the Executive, on a regular basis, that the adopted integrity indicators and related monitoring strategies are effective in detecting and responding to challenges to the organisation's integrity, including the ethical conduct of Austrade officials and agents.***

#### **Level 4: Sound Operations/business execution**

This area of the governance framework covers a number of issues which are assessed below.

**4.1 Accountabilities and authorities:** A major part of the reforms within Austrade have been intended to realign the key accountabilities and authority within the organisation. The change from a four regions model for overseas presence to a market based segmentation for global business strategies (trade, investment, branding and education) represent a very significant reform and change to established authorities within the agency. From interviews with a number of senior managers, it appears that the logic of the approach was well regarded, and was seen to align with the direction that many staff saw as desirable. This was seen as providing a favourable disposition to the realignment within the organisation. The implication for individual staff members affected by these changes in either redeployment within the agency or departure from it has been a key issue in the reform roll out, and a number of appropriate staff management strategies have been deployed to manage the sensitivities involved in reform of this magnitude. The head of the HR function has been involved in the planning and implementation of these changes, and HR management issues have been considered throughout the process by the senior executive committee overseeing the reforms.

While the new structures are well suited to the new business model for the agency on paper, the review has taken place before they have become operational, and it is not possible at this stage to consider the effectiveness on implementation or of operations. This is clearly an issue that the Executive will need to monitor closely in the forthcoming period, and be responsive and flexible to any emerging problems or shortcomings in execution.

**4.2 Controls:** Despite the scale of changes to structure, authorities and business approach, Austrade has a stable operating environment with well embedded control frameworks as evidenced by a range of documents provided to the review, and the effectiveness of financial controls in delivering unqualified financial statements. The range of documents and corresponding training strategies evident in Austrade is extensive (see Attachment A) and a number of key policies have supporting training strategies – for example, mandatory training accompanies the Anti – bribery policy). The issue of the effective absorption of these policies by the staff members of Austrade is considered later in the report.

**4.3 Planning and Budgeting:** The CEO review and realignment of Austrade’s structure and business model involves a major exercise in planning and budgeting. Its genesis derives from the changes to the expectations on, resources for and the external environment facing Austrade – and the outcome represents a significant refocussing of the resources, goals and business practices for the organisation. As an exercise in planning and execution, the reforms illustrated a well organised and lead approach by the organisation. Austrade utilised a comprehensive change management strategy that it has developed in house over a number of years and which it has found to suit its culture and circumstances. According to senior managers this framework has served the change process well and provided a sound guide for the steps along the way. Consultation with stakeholders, engagement and communication with staff, involvement of staff in design of new aspects and HR management strategies were encompassed in the reform process.

The consequence of a broad ranging change process in any organisation raises issues of the degree to which the changes are systemically adopted throughout all levels of the organisation. The degree of commitment to the “new world” within Austrade, and how this might be assessed is considered later in the report.

Austrade has well developed and documented corporate business planning frameworks and processes in place which include timetables and responsibilities for the annual planning cycle. This includes review and update of their outcomes and program structure for the annual federal budget in May, and finalisation of plans linked to final budget and resource decisions.

**4.4 Management and measuring performance:** The new business approach for Austrade necessitated a renewal of performance measurements and a taskforce was established to develop new business KPIs suitable to the significantly different goals and strategies of the organisation. At this point this process is not complete, and was not examined in this review.

The recognition by the Austrade leadership of the importance of this aspect augurs well for the outcomes of that exercise and further assurance of the outcome is provided through the requirement that changes to outcome and program structures are subject to Minister for Finance approval processes. Identifying appropriate and effective KPIs will be essential in this process, and Austrade is mindful of the challenges their new business model presents in choosing KPIs which drive the desired business outcomes, without either creating perverse incentives to business areas or encouraging the ‘gaming’ of key values and ethical standards which might otherwise be seen as impeding ‘performance’. Further, as discussed in Section D of this report these indicators must be capable of ensuring the business imperatives of lawful, ethical and high integrity behaviour are given equal weight to traditional business outcome indicators.

**4.5: Review and evaluation:** As with 4.2, the CEO review and realignment of Austrade’s structure and business model demonstrates Austrade’s disposition to the review and evaluation of its value proposition as a tax-funded entity. It was noted that concurrently with the Institutes review, Austrade was voluntarily participating in a pilot project sponsored by the WTO aimed at the comparative assessment of Trade Promoting Organisations across the world. The approach taken was the development of a detailed maturity matrix model encompassing over 200 indicators. The model may provide a useful guide to TPOs, including Austrade, of areas of their operations that could be improved.

**4.6: External reporting:** As a Commonwealth public sector agency, Austrade has a range of external reporting responsibilities and these appear to have been met over recent years on the basis of Audit and

Risk Committee review and in the absence of breaches being publicly identified. No inadequacies were brought to the Institute's attention by Austrade in the course of the review.

The issue of reporting more broadly to external stakeholders as part of good accountability practice was not examined by the review, although as already mentioned Austrade has recognised it will need to redesign its approach in this regard given its new business model.

## **Level 5: Information, analysis and decisions**

A key feature of the restructuring of Austrade was to create a more effective decision making executive for the organisation. The restructuring allows for a smaller number of direct reports to the CEO, all Australian-based, and these three positions, with the CEO now form the Senior Executive Group (SEG). The SEG meets weekly with the heads of HR and strategic planning as well as functional managers as required. This arrangement has been in place since July 2011 and for those involved, is seen to be effective in timely decision making.

Part of the agenda for SEG meetings is dedicated to regular reports processes and a well embedded cycle of such reports is in place. The balance between proactive and reactive deliberations clearly needs to vary over time, but an embedded reporting cycle of key corporate information is essential to sound governance and accountability.

***It is recommended that the regular reporting regime for the Executive meeting is maintained.***

The SEG is supported by three subcommittees – Business Advisory Group; Workplace Relations Committee; and Security Advisory Committee. Each committee has published Terms of reference and memberships drawn from across Austrade.

While record keeping policies are in place and were available to the review, record keeping practice within Austrade was not examined. The effective management and use of information was identified within the risk management plan as an organisation wide risk, and for which a number of treatments are being pursued. Arrangements and accountabilities for information management however is split within the new structure between the business area responsibility for on-line services and practice (which is a key priority for the new business model Austrade has adopted) and the CIO. Such divisions of responsibility occur within ever organisational structure, and where they occur there is an added onus on the parties to develop and exercise collaborative arrangements.

***It is recommended that the Executive closely monitor the effectiveness of the business partnership between the On-line service area and the ICT area over time as online services continue to develop.***

One benefit of the move to a more centralised structure recognised by senior staff was that it allowed for the creation of more stable, and more consistent, business systems and supporting ICT applications across the whole organisation. If this is in fact achieved over time as investment in redesign occurs, then the consistency, accuracy and reliability of information available for the management of the agency would be enhanced.

## **Level 6: Self-assessment and reflection**

Austrade's leadership has demonstrated through the process of the reform and restructuring, and the approach they have taken to it, that they are much attuned to the need to review, respond and reform their organisation to meet the various kinds of challenge it faces. Best practice requires that this approach is maintained, and that critical self examination is regularly undertaken, with a range of dimensions and perspectives employed in doing so. This involves adopting appropriate strategies and methodologies such as maturity matrix assessments, best practice benchmarking and scenario assessments.

In relation to integrity issues in particular, a process for systematic reflection and self-assessment should be adopted to deal with critical incidents identified from time to time by the Ethics Committee and the Chief Ethics Officer: this self-assessment should be positioned so as to drive policy review and re-development as required by emergent issues, and should also form one of the inputs to the institutional processes for KPI review and risk-assessment.

## **C: Overall conclusions on performance and conformance**

From the findings above, Austrade demonstrate that they have adopted a considered reform process of their business and internal structures, and have undertaken a well planned implementation to these changes. They have maintained good internal control frameworks and arrangements, and established appropriate structures and frameworks for effective governance into the future.

### **C.1 Performance (business outcomes)**

The success of any business undertaking can only be fully assessed retrospectively and while it is too early to consider the achievement of the intended business goals from the new business model in this way, key strategies are in place (such as business planning, new organisational structures and development of new KPI's) and remaining aspects ( eg communication with stakeholders) are planned to coincide with the roll out of the new approach to business.

### **C.2 Conformance**

In regard to its obligations to risk management, business operations and decision making, Austrade has developed and maintained effective control frameworks and a comprehensive set of operating policies across its operations in line with the requirements on a Commonwealth agency. It has met its reporting obligations and achieved unqualified financial statements.

It will need to ensure that effective monitoring of actual practice, and of critical incidents in particular, is a matter of routine procedure within the organisation, to ensure that the required level of conformance is understood and maintained, and that the commitment of its staff to ethics and integrity is sufficient to safeguard Austrade's reputation as an organisation which takes integrity seriously.



## **D: COMMITMENT**

### **D.1 Internal Environment**

The foundation level of the “House of Governance” is the **commitment** level. This goes beyond the formalised frameworks, policies and arrangements that an entity puts in place to organise itself to go about its business (assessed above), and goes to how these have been absorbed into the operations of its people as they go about their work – their behaviours and attitudes, and their commitment to the values of the organisation. These depend on staff understanding of not just the business goals of the agency, but also of the expectations the leadership have of their performance, attitudes and integrity.

Good practice suggests that Executive level assessment of the internal operating environment needs to be an on-going and regular part of their “organisational health” monitoring activities.<sup>12</sup> The substantial reforms undertaken over the past 12 months within Austrade are clear evidence that the leadership within Austrade is focussed on the creation of an effective and high achieving organisation, and that an awareness of developing an appropriate internal operating environment is part of this approach.

A particular challenge for establishing a high integrity orientation of staff is heightened for some within Austrade by factors such as the geographically dispersed overseas and domestic network of offices, the cultural diversity of locally-engaged staff (LES) overseas, , and the high level of expectations on Austrade to interact with “accepted” business practices with their diverse client base. As demonstrated in the training material developed to guide staff on anti-bribery rules, the potential for conflict between the required standards of behaviour of Australian officials (that is, APS employees subject to the Public Service Act’s specified Code and Values), who are working with business representatives and the locally-accepted overseas business and governmental practices, is a source of risk in many of Austrade’s operations.

Assessing the internal operating environment of a dynamic organisation such as Austrade is difficult at a time when it is going through substantial change, and without applying assessment tools such as staff surveys and individual performance management information.

While the review did not directly measure or assess these matters, Austrade requested in the review scope of work that ANZIG assist in identifying integrity (and performance) indicator recommendations which would assist Austrade to measure the effectiveness of the governance framework in the context of its business objectives. This request from Austrade was aimed at assisting the organisation to implement indicators designed to provide it with ongoing assessment of its integrity systems.

### **D.2 Findings on current arrangements**

It is evident when assessing Austrade against the items listed within Level 1 of the “House of Governance” assessment matrix that a number of structural elements are already in place within Austrade with respect to its internal environment. This includes strong leadership on these issues within Austrade through setting expectations, adopting training tools and establishing appropriate policy frameworks on values and ethical issues. These include:

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<sup>12</sup> APSC “Agency Health – monitoring agency health and improving performance” 2007

- An Ethics Committee, recently established, with an external chair;
- An Ethics Officer position, established at a senior level, for the provision of advice;
- Recognition of the need for a strong ethical framework within the organisation's corporate risk plan;
- Inclusion of staff policy guides, codes of conduct and client services handbooks that address ethics and integrity issues;
- Recognition of the need for relevant policies being refreshed and promulgated across Austrade (for example the recent actions on sponsored travel arrangements, gift policies, conflict of interest processes);
- Recognition of the need for mandatory training and on-line refresher courses, with built in assessment of learning.

Austrade has a large number of readily available internal policies for guidance of staff and administrators on undertaking the business and administration of Austrade. In fact the policies are very comprehensive and extensive. The codified, non-diffused information for the organisation is in place. The amount of information available in turn raises the issue of the extent to which all staff are cognisant of all the policies relevant to their work, and are aware of the incentives to fully adopt and practice these policies. This awareness will clearly vary from officer to officer but needs to be managed, with positive monitoring of staff practice warranted within the organisation to assess the level of absorption of desired standards of conduct, and to address the results of a gap analysis which should be a routine aspect of the organisation's risk assessment process.

One of the mechanisms Austrade already has in place to address these needs is its annual all staff governance refresher training. This training, linked to year end compliance sign-offs, involves all staff in refreshing their knowledge of corporate policies including a test of key features of those policies. As results are held within the organisation's online training systems, the outcomes of the test enable identification of any particular topic or locality areas of lower awareness.

Establishing and maintaining an energised and committed workforce also requires effective (to some, unrelenting) communication with all members of the organisation. This is particularly so in periods of change. Austrade has adopted a number of appropriate communication strategies including events during its period of reform, and in the view of senior personnel involved in the process of change these have been effective. These include:

- CEO broadcasts
- Establishment of cross agency working parties on aspects of reform (e.g. development of KPIs)
- News bulletins

It was evident from interviews conducted as part of the review that senior staff are in general favourably disposed to the re-orientation of Austrade's business aims and organisational structure. Equally, there was also recognition that to some staff the Review process had taken some time and that this may have contributed to some loss of focus and drive in the interregnum.

### **D.3 Consolidating governance reform**

The previous sections of this report document a very positive governance story in terms of the first two stages of the reform process – the review of Austrade activities and the development of a reform

program including a raft of new governance initiatives to reinforce existing governance structures and processes. The organization has now entered a third 'consolidation' phase in governance reform. This section therefore aims to provide a range of suggestions to help Austrade further embed governance reform in practice. At this stage in the evaluation we are sure that Austrade has taken most necessary steps to underpin its workplan with a robust integrity system – this is reflected in the strong documentation of formal policy and processes and the existence of training courses for embedding behavioural change.

However, *while we have no evidence to suggest otherwise*, at this stage in the Austrade Review implementation process we are not in a position to assess the impact of these strategies on individual and organizational performance. This is largely because Austrade has undertaken significant governance changes in a short period of time and there is almost always a lag between structural reform and behavioural change. Peter Grey, Austrade's CEO, instigated the Review of Austrade's overall operations in June 2010 and the outcomes of the review were only formally reported by the Minister of Trade in May 2011.

While the timeframe of this review of Austrade's governance framework has not allowed for a *statistically significant* evaluation of staff and stakeholder perceptions of the impact of governance reform such an analysis at this stage of Review implementation would be premature.<sup>13</sup> The key task of the consolidation stage of the implementation process is to establish effective monitoring systems for evaluating ethical governance behaviours. In sum, the knowledge base for understanding Austrade governance is process rich, it needs to demonstrate it is behaviour rich. While the establishment of efficient integrity processes is important, the achievement of integrity in public administration is also a behavioural challenge for individuals.

As part of the ANZIG review an Executive Workshop 'focus group' was convened with eleven members of Austrade's senior management team from across the organisation including representatives from Canberra, Sydney and Brisbane. Discussion at the workshop included:

- (1) senior management perceptions of the *general* cognitive, institutional, and environmental barriers to ethical governance and the key conditions for ethical governance;
- (2) identification of the critical governance dilemmas arising from these barriers; and
- (3) senior management views on further practical strategies for building and sustaining workplace integrity.

A full and frank conversation followed which clearly demonstrated Austrade's commitment to organizational learning and reflexivity. It should be noted that the findings generated from this workshop should be viewed as the basis for further exploration and are not representative of the views of the organization as a whole.

Box 1 provides an overview of potential key barriers to ethical governance in general that have been identified as germane to the public sector. These have been organized around cognitive, institutional, and environmental variables. Cognitive barriers refer to obstacles to the capacity of an organization to learn and by implication behave ethically. Institutional barriers refer to internal organizational issues which impact adversely on the capacity to create and deliver public value. Environmental variables refer to exogenous factors which can undermine the capacity of an agency to create and deliver public value.

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<sup>13</sup> We recommend that such an evaluation should take place in two years time.

Most environmental factors are beyond an agency's control but need to be factored into strategic thinking particularly in areas of risk-identification and strategic communication. These sets of barriers do not exist in a vacuum but interact with one another in complex and often unexpected ways. However, they provide a basis for strategic thinking about both the necessary conditions for ethical governance and effective strategies for achieving them. Potential barriers can also be identified in regard to ethical governance. For example, consider the cognitive barriers to the capacity of the organization to learn:

1. Technical difficulties of communicating the benefits of ethical governance in innovation rather than compliance terms;
2. Diversity of target group behaviour and the problem of competing values in a fragmented organization (the 'tyranny of distance');
3. Absence of an evidence-based understanding of the degree of behavioural change required; and
4. Absence of a commitment to strong ethical values

Each of these barriers can be turned into a positive value if a transformational strategy is implemented to reverse prevailing conditions. For example:

1. Communication of the benefits of ethical governance in terms of integrity, risk-management, and innovation, rather than in simplistic compliance terms;
2. Integration of competing values through a common understanding of good practice OR integration of common values through different practices;
3. Development of an evidence-based understanding of the degree of behavioural change required; and,
4. The establishment of an organizational workplan which is driven by public service values and underpinned by appropriate capability development,<sup>14</sup> a coherent approach to incentives and disincentives, and performance-related mentoring and coaching.

### **The critical governance challenge in integrity reform**

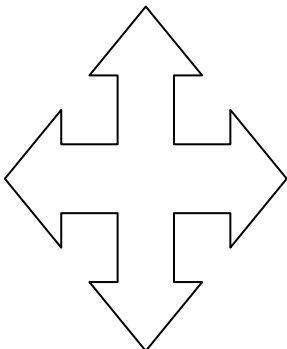
The barriers to achieving ethical governance of an organisation listed in Box 1 show that the critical challenge lies in clearly articulating and communicating its core values to staff, explaining the benefits of a values driven organisation and achieving organisational absorption of these values in practice.

We noted in Section D2 that Austrade had been successful in developing an appropriate communicating strategy to underpin the reform of its business processes and that this has included communication of its organisational values. It is also apparent as indicated earlier in this report, that Austrade has in place strategies and policies to address many of the individual barriers listed in Box 1, particularly among the Institutional barriers. Continuation of this communication, including in the context of performance indicators as described below is particularly important in an organisation with a very diverse and dispersed workforce, such as Austrade. In addition, further reforms may need to be introduced to ensure that the organization achieves the actual performance, in terms of ethics and integrity matters, it is looking to maintain. For example, Austrade management has clearly identified that misalignment of performance and ethical frameworks could raise the risk of inappropriate and unethical behaviour. In further developing and refining new performance measures for the organisation's revised business model awareness and management of this risk will be critical to avoid creating any 'perverse incentives'.

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<sup>14</sup> When we refer to 'capability' this encompasses competency-based training, experiential learning, mentoring and coaching.

**Box 1. Perceptions of potential interactive barriers to ethical governance**

	<p align="center"><b>Cognitive barriers to the capacity of the organization to learn</b></p> <ol style="list-style-type: none"> <li>1. Technical difficulties of communicating the benefits of ethical governance in innovation rather than compliance terms</li> <li>2. Diversity of target group behaviour and the problem of managing competing values in a fragmented organization (the 'tyranny of distance')</li> <li>3. Absence of an evidence-based understanding of the degree of behavioural change required</li> <li>4. Absence of a commitment amongst some staff to strong ethical values</li> </ol>											
<p align="center"><b>Institutional barriers affecting implementation</b></p> <ol style="list-style-type: none"> <li>1. Absence of an adequate causal theory of behavioural change e.g. what is the problem being addressed?</li> <li>2. Misalignment of performance and ethical frameworks e.g. identification of inappropriate business measures - pursuit of private value undermines achievement of public value</li> <li>3. Communication of ethical standards and experiences that focuses on compliance and punitive language rather than positive language</li> <li>4. Inadequate allocation of financial resources to build strong evidence base e.g. failure to capture the lessons from monitoring systems because the wrong data is being collected</li> <li>5. The absence of a whole of organization approach to ethical governance</li> <li>6. Confused accountabilities due to the absence of clear decision rules</li> <li>7. Absence of committed leadership</li> <li>8. Recruitment of officers with inadequate skills/training</li> <li>9. Absence of technical support</li> <li>10. Poor calculation of risk</li> </ol>		<p align="center"><b>Environmental variables affecting implementation</b></p> <ol style="list-style-type: none"> <li>1. Prevailing global economic conditions</li> <li>2. Public perceptions</li> <li>3. Media perceptions.</li> <li>4. Attitudes and resources of stakeholder groups</li> <li>5. Support from the authorizing environment (e.g. politicians)</li> <li>6. High risk policy environment</li> </ol>										
<p><b>Implementation of governance reforms (dependent variables)</b></p> <table border="0"> <tr> <td>Policy outputs</td> <td>Compliance with policy outputs by target groups→</td> <td>Actual impacts of policy outputs→</td> <td>Perceived impacts of policy outputs→</td> <td>Continuity or change</td> </tr> <tr> <td>→</td> <td></td> <td></td> <td></td> <td></td> </tr> </table>			Policy outputs	Compliance with policy outputs by target groups→	Actual impacts of policy outputs→	Perceived impacts of policy outputs→	Continuity or change	→				
Policy outputs	Compliance with policy outputs by target groups→	Actual impacts of policy outputs→	Perceived impacts of policy outputs→	Continuity or change								
→												

## What does workplace integrity look like when you've got it?

The best safeguard against risks to integrity, including improper conduct, misconduct and corruption is the maintenance of an ethical and professional workplace. It was evident from the workshop that Austrade staff consider the following conditions as crucial to maintaining an ethical and professional workplace:

- ethical leadership – the extent to which managers lead by example and create a professional working environment for staff.
- committed management and supervision – the extent to which managers take responsibility for the team, and actively manage work performance.
- competent and professional staff – the extent to which staff carry out their duties in accordance with the organisation's expectations of them.
- effective processes for the whole of the organisation– the extent to which risk management processes exist in the workplace, and are complied with by all staff.
- comprehensive and accurate professional reporting – the extent to which internal reporting facilitates early detection and contributes to the continuous improvement of the organisation.

These five key areas are clearly interrelated and when an organisation performs well in each, it indicates strong capacity to identify and manage integrity related issues.

## Measuring integrity

The following criteria serve as guidelines for the construction of effective integrity indicators.

1. Indicators should measure those behaviours that the governance reforms are attempting to maintain and improve.
2. The measurement of progress in any endeavour must relate closely to the aims agreed upon i.e. they must be clearly understood by staff.
3. It follows from items 1 and 2 that the process of selecting indicators should be a participatory one in which staff should be involved.
4. All indicators selected must be simple, knowable by all (i.e. by all staff), evidence-based, and easy to monitor.
5. They should be precisely specified, and performance should be capable of accurate measurement in quantitative terms, or appropriately assessable in qualitative terms.
6. Data relating to the indicators must be available, or capable of being produced.
7. Movement (positive or negative) in the value of any indicator should have an unambiguous positive or negative meaning in relation to program intentions.
8. Any movement in the value of an indicator should, so far as possible, reflect changes brought about by the activities initiated in accordance with the program, rather than because of changes stemming from other strategic interventions or from non-policy related factors. Note that the information produced on some indicators may have a 'downside risk' in the sense that it may feed negative perceptions and prejudices, and must therefore be carefully managed.

For the past decade international organizations such as the OECD and the World Bank for reasons of donor accountability and certain western governments in response to various legitimacy challenges have sought to develop actionable governance indicators. *Actionability* in this context refers to greater clarity regarding the steps governments can take to improve their score on a governance indicator.

*Actionability* requires that indicators have *narrow* and *explicit* definitions. Actionability, also infers the *contestability* of indicators, permitting meaningful discussion regarding the appropriateness of any given rating. Significantly, objective vs. subjective, or perceptions-based vs. experience-based, criteria are *not* critical distinctions for “actionability”. Actionable Governance Indicators should capture *institutional arrangements, procedures and practices* of one or more of the five broad aspects of governance emphasized in the seminal work on governance:

- Effective public sector management
- Decentralization and local participation
- Political accountability
- Checks and balances
- Civil society, media and the private sector oversight and input into public sector activities and decision-making

Notably different dimensions of Good Governance are measured differently. Our work for Austrade can mostly be contained within the area of *effective public sector management* as determined by *the achievement of workplace integrity*. Several indicators can be used to investigate and assess progress in this area:

- Ethical leadership
- Asset declaration
- Adherence to conflict of interest rules
- Effectiveness of cross cutting public management systems (e.g. meritocracy, public finance, procurement)

Box 2 provides a list of Integrity indicators for monitoring workplace integrity. These are used by several United Nations agencies as well as several public organisations across Australia.

Given the range of objectives that Austrade’s governance reforms are attempting to achieve, there should be a clear understanding of the difference between ‘structure’, ‘process’ and ‘outcome’ indicators, and of the usefulness of certain proxy indicators in some circumstances. ‘Structure’ (S) indicators refer to formal rules, policy or legal structures. ‘Process’ (P) indicators refer to working practices and norms. ‘Outcome’ (O) indicators measure the outcomes of the program.

It is important to keep S, P and O indicators separate because it may well be that despite the rules (S), the ‘process’ (P) may not implement the rules very well, and the ‘outcome’ (O) may not reflect their apparent intention. As Peter Ambrose (2005, p. 49) puts it:

The three types of indicator can be understood by analogy with making a pudding. The **S** is the recipe, the **P** is the making of the pudding and the **O** is the eating. Proverbially, the proof of the matter lies in the **O**, not in the other two.

## **Box 2. Types of indicators for measuring workplace integrity**

**Proposition:** workplace integrity requires effective processes – the extent to which risk management processes exist in the workplace, and are complied with by staff.

### **Indicators for measuring the quality of workplace integrity with regard to effective process:**

#### ***Workplan integration***

How well are policies and procedures designed, reviewed and documented? (S)

How effectively are staff updated on workplace policies and processes? (P)

How effectively are workplace policies and processes, communicated, embedded and updated? (P)

#### ***Risk mitigation***

How well are risk assessments policies and procedures designed, reviewed and documented? (S)

How effectively are risk assessments undertaken in the workplace? (P)

How well are risk assessments policies and procedures communicated, embedded and updated? (P)

What mechanisms are in place for discussing problematic situations (including misconduct by others) (P)

Does the organisation maintain a process for protection of ‘whistleblowers’, either external or internal?(P)

#### ***Effective monitoring***

How well are integrity monitoring systems designed, reviewed and updated? (S)

How effectively are emerging ethical risks monitored by conducting regular environmental scans? (P)

What mitigating strategies are developed in response? (P)

How well are such strategies documented, communicated and embedded? (P)

#### ***Ethical behaviours***

How well are policies and processes for managing integrity aligned with actual job realities? (S)

How effective are policies and processes for managing integrity breaches and risks that have been associated with improper conduct, misconduct and corruption? (P) For example, levels of disclosure by staff of:

*Assets and Liabilities*

*Receipt of gifts and benefits*

*Access and release of confidential information*

*Secondary employment of staff paid*

*Outside positions non-paid*

*Declarable associations*

*Conflict of interest (e.g. prospective future employment, related-party interests)*

*Corruptive offers of personal benefits, whether direct or indirect.*

Does the organisation have a guide to building workplace integrity – Indicators and practice? (S)

How embedded is it in the organization? Do staff understand the issues and risks relating to each area, the policies and processes for managing these situations, their responsibilities for ensuring compliance, and where to go to for advice or more information. (P)

#### ***Compliance***

Do Managers recognise that they have a responsibility to monitor staff adherence to policies. Does the organization have an ethical health plan for the workplace? (S)

How well is the plan designed, documented, reviewed and updated? (S)

How effectively is it integrated into the workplan of the organization? (P)



**Audit**

Does the organisation conduct integrity audits?

How well are these integrity audits, designed, documented, reviewed and updated? (S)

How regularly are they conducted to ensure that staff are complying with obligations under organisational policies, and that procedures in relation to risk management areas are being adhered to? (P)

How effectively are the findings communicated to managers and staff? (P)

**Capability encompassing competency-based training, experiential learning, mentoring and coaching**

How well is training on integrity issues designed, reviewed and updated? (S)

How well designed are the outputs used in training (e.g. case studies, PBL exercises)?

Are issues of ethics and integrity included in all workplace education, training and practice? (S)

Is specific ethics and integrity training provided for staff assigned to high-risk misconduct areas (S).

How well is it designed, reviewed and updated? (S)

Are training scenarios or coordinated exercises run to test risk management operating procedures? (P)

How effectively is the impact of training on staff performance assessed? (P)

Is such training mandatory for entry to significant decisionmaking levels in the organisation? (S)

Is such training required on a regular basis (eg annually)? (S)

**Methods of data collection:** documentary analysis, peer review, qualitative and quantitative surveying of staff and SES perceptions, independent review

**Outcomes:**

Processes for identifying and managing risks in the workplace are effective, and specific attention is paid to issues which have been associated with integrity breaches.

Staff are able to reliably identify and understand the significance of integrity risks.

There is a high level of compliance with workplace policies and processes.

Processes are well documented, regularly reviewed, and updated in consultation with staff to meet the changing nature of the task environment. Integrity is not an optional, additional learning and training component: it forms part of the learning and training process, and is mandatory for progression within the organisation.

The organisation has documented formal procedures for ensuring that it is a 'learning organisation', which learns from its experiences (and incentives exist to foster this learning disposition within the organisation).

This checklist of integrity indicators provides for a possible framework within which the Executive could establish a range of active strategies and practices to shape the internal operating environment. The risk is that the issues raised by each of the indicators are not methodically tested, and retested over time, but are assumed to exist and be absorbed within the organisation. As recommended above, the Austrade Ethics Committee could be assigned responsibility for providing assurance to the Executive, on a regular basis, that adopted indicators and related monitoring strategies are effective in detecting and responding to challenges to the organisation's integrity, including challenges to ethical conduct by Austrade officials and agents. In particular, the process (p) and structure (s) indicators could be examined by the committee quite readily from information available within the agency, including the results of on-line training.

***To evaluate whether integrity outcomes are being achieved, it is recommended that Austrade select two critical integrity indicators each year for detailed evaluation.***

For each, a measurement methodology would be devised and implemented. For the first two suggested above, a sample audit approach could be adopted, and the results assessed by the Ethics Committee.

Any shortcomings identified, whether they be particular work areas, or particular policy areas, would then become the focus of strategic interventions to address the concern.

***It is recommended that the Executive maintain a range of active strategies and practices to shape the internal operating environment, using the integrity indicators developed for this purpose, as well as strategies such as staff surveys and assessing effectiveness of capability development strategies.***

Actions should be initiated to address priority areas of concern identified in this way, with the Executive seeking to satisfy itself that the agency is performing well against benchmarks. Best practice suggests learning organisations can benefit from codifying the approaches that are found to have an impact on improving their performance so that these practices are absorbed within the organisation.

***ANZIG also recommends that the Executive considers whether there would be value to the agency in developing an in-house policy framework for building workplace integrity, setting down the objectives in this area, the approach adopted and the roles and responsibilities allocated. This could include guidance on the use of indicators and the practices for educating staff such as fostering discussions about ethical conduct and integrity within the organisation, and maintaining up to date training materials informed by the experiences of the agency in its business activities and identified through the monitoring and assessment activities outlined above.***

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## **Attachment A.**

### **Supporting Austrade Reform: Austrade Governance Changes 2010-11**

Over the past 18 months Austrade has undertaken a wide ranging program of enhancements to its governance arrangements. This work has included improvements to the overall governance framework as well as a specific focus on ensuring that its processes and policies are appropriate in relation to the anti-bribery provisions of the Australian Criminal Code and international anti-bribery legislation.

The overall impact of this governance change program will be assessed through an independent audit, being undertaken for Austrade by the Australia New Zealand School of Government (ANZSOG). Details of this audit are outlined in the Governance framework audit section of this paper.

#### **Review of overall governance framework as key part of Austrade Review process**

In June 2010 Austrade CEO Peter Grey commenced a comprehensive review of Austrade's overall operations. The review process included broad consultation with a wide range of stakeholders and with staff and culminated in a formal government consultation process and Cabinet consideration.

The outcomes of this review, announced by the Minister for Trade in May 2011 included the following key governance features of Austrade's new structure and processes:

- strengthened executive management of the organisation through a smaller executive group, meeting on a weekly rather than monthly basis
- a global rather than regional management structure with strategic management and oversight of the international network based in Austrade's headquarters
- clearer lines of responsibility for Austrade's core functions - trade, investment and education and for the EMDG scheme, and
- renewal of indicators of organisational effectiveness during 2011/2012 to better reflect the organisation's strategy and directions, including incorporation of governance considerations.

#### **Review of Austrade services and policies in relation to section 70 of the Criminal Code (anti-bribery provisions)**

In May 2010 Austrade sought advice from external legal counsel to assess risks in Austrade's operations in relation to bribery of foreign public officials under section 70 of the Criminal Code Act 1995. Legal counsel reviewed Austrade services and documentation, including meeting with the Executive Group at its August 2010 Executive Conference. While the review did not indicate that existing activities or services were inappropriate, recommendations were provided on potential enhancements to Austrade's documentation and processes including:

- development of a specific anti-bribery policy and guidelines for staff
- explicit references to anti-bribery in codes of conduct
- additional wording regarding anti-bribery in client service proposals, trade show and EMDG materials, and
- additional training for staff.

All suggested enhancements were taken up by Austrade.

## **Changes to policies and procedures**

Following the external legal counsel advice (as described above) in August 2010, Austrade undertook a range of changes to documentation and policies. These changes focussed on: explicitly including anti-bribery references in a range of policies and codes of conduct; development of a specific anti-bribery policy and guidelines for staff, and; inclusion of anti-bribery references in client documentation, including that Austrade will not assist companies that engage in bribery.

Progress on implementing the recommendations was monitored by the CEO Management Board and also reported to the Audit and Risk Committee. An update was provided to the CEO Management Board in November 2010 including details of changes and updates to:

- policies
- Chief Executive Instructions
- Administrative Standards Manual advice
- delegations
- general ledger items
- codes of conduct
- employment contracts
- client service documentation e.g. market research and visit program templates
- client service proposals and report formats
- event participation documentation
- customer guidelines, and
- Business Club Australia documentation.

The Audit and Risk Committee have also received a report on the implementation of these changes.

## **Client service handbook**

A revised version of Austrade's Client Service Handbook was produced and released in February 2011 taking account of the changes to processes and policies made in response to the legal counsel advice.

The main aims of the Handbook are to be the prime source for Austrade staff on client servicing policies and to assist in ensuring that clients receive consistent levels of service across the organisation. Section 1 of the Handbook, Austrade guiding organisational principles, includes information on ethical business conduct and bribery laws. The Handbook also reinforces the requirement for Austrade staff to use the standard templates and formats, including information on anti-bribery, in delivering services and service proposals.

## **Anti-bribery training**

Also following on from the legal counsel advice, Austrade has developed additional anti-bribery training for staff. This training includes options of either face to face workshops covering around three to four hours including case studies, or can be delivered remotely via video conference.

Austrade's training team in conjunction with Austrade's internal legal team deliver the training. As at mid-August 2011, nearly 800 staff had attended an anti-bribery workshop, approximately 80% of the organisation. An online course will be available from October 2011 and made a mandatory part of the induction curriculum for new staff.

Transparency International Australia were asked to review the training and provided a range of suggested improvements, all of which have been taken up. The Australian Federal Police has also reviewed the training materials and their suggestions have been included.

### **Annual Corporate Governance online module**

As part of end of financial year compliance processes, all Austrade staff undertake an online corporate governance refresher module. This process has been in place for a number of years. The content of the 2010-11 module was revised to specifically include anti-bribery content. The module is undertaken by all staff both on and offshore including locally engaged staff, and covers a range of governance topics as well as a short 'test'. The module is compulsory and completion is monitored.

### **Agency risk management plan (ARMP)**

Each year the organisation develops an Agency Risk Management Plan (ARMP). The ARMP sets out the key risks to Austrade achieving its objectives and mitigation strategies to address these risks, with designated responsible managers.

In both 2010-11 and now in 2011-12, risks and mitigation measures in relation to ensuring ethical business practices have been explicitly included as part of the ARMP.

### **Establishment of an Ethics Committee and a role of the Chief Ethics Officer**

To strengthen Austrade's ethics framework in April 2011, the CEO established an Ethics Committee with an independent member as chair, and formalisation of the role of 'Chief Ethics Officer' as part of the responsibilities of a senior Austrade manager.

The Committee will play a governance role. Subject to further insights from other APS precedents, the Committee's draft terms of reference will include:

- promoting high standards of ethical behaviour throughout Austrade
- providing clear and consistent guidance on standards of conduct
- evaluating the effectiveness of Austrade policies and practices in relation to ethical behaviour.

In addition to the establishment of the Ethics Committee, an existing relevant senior manager will be designated as having Chief Ethics Officer responsibilities. The Chief Ethics Officer would report to the Ethics Committee and play a coordinating role in the implementation of the Committee's terms of reference.

### **Internal audit review**

The International Standards for the Professional Practice of Internal Auditing require that an External Quality Assessment of Internal Audit be conducted every five years. Austrade commissioned the Institute of Internal Auditors (IIA) to undertake such a review in mid-2011 and the review report was delivered in August.

The report conclusions indicate that internal audit at Austrade demonstrated 'general conformance' with the internal audit standard and code of ethics. This rating is the highest rating that may be given. The report also indicated a rating from internal audit 'customers'; of 77% which was slightly above the average of 75% for other organisations that have undergone quality assessment through the IIA in Australia. The report provides recommendations for further improvement that will be actioned.

### **Standard email signature block**

A new format for Austrade email signature blocks was implemented in August 2011. The format includes information on: confidentiality; provision of information; anti-bribery legislation; and travel advisories. All staff have been required to implement the signature block to ensure a consistent approach by the organisation.

One impact of this change is that Austrade will be able to ensure that all entities with which it communicates are clearly advised of Austrade's approach to anti-bribery activity, including that services cannot be provided to organisations involved in bribery and will be withdrawn should Austrade become aware of such activity. While these messages are now part of client proposals (as described above), many organisations that communicate with Austrade may not progress to request specific services. The standard email signature block assists in addressing this potential gap in communication of Austrade's position, effectively putting any party in contact with Austrade 'on notice'.

### **CEO and corporate messages**

In addition to the actions described above, the importance of strong governance and ethical business practices has been reinforced with staff through a range of CEO and Corporate staff messages over the past 18 months. These messages are sent by email to all Austrade staff. After taking up the role of CEO in March 2010, Peter Grey wrote to all staff in May 2010 regarding governance issues including adhering to corporate policies and client service processes. In June 2010 this was further reinforced with a message regarding business ethics, codes of conduct and bribery provisions of legislation. Communications regarding the Austrade Review have underlined the need to adhere to corporate policies.

### **Oversight of the governance change process**

As previously mentioned regarding changes to policies and procedures, oversight of the governance change process has been undertaken by the CEO Management Board (CEOMB) and the Audit and Risk Committee (ARC).

The CEOMB was the CEO's senior management advisory committee on cross organisational issues throughout 2010/2011. This role is now undertaken by the Senior Executive Group (SEG), a smaller executive group, meeting on a weekly rather than monthly basis, as described above.

Papers and updates received by the CEOMB over the course of 2010-11 included updates on ethics/anti-bribery policies and actions, the Agency Risk Management Plan, Client Service Handbook. The ARC has also received reports on Austrade policies and procedures changes in



response to anti-bribery legislation, the IIA review of internal audit, delegations changes and the Ethics Committee.

### **Corporate Governance Forum**

To facilitate a broader whole of government engagement on governance issues, in 2009 Austrade initiated the establishment of the cross-agency Corporate Governance Forum. The Forum brings together government agencies throughout the year to share information on current approaches, transfer knowledge and identify better practice on public sector governance topics. During 2010–11, the Forum heard presentations on the following topics: developing better corporate policy frameworks, directions and statements for an agency; achieving effective governance through executive, management and audit and risk committees, and; changes to FOI and expected benefits.

The Forum is managed by an organising committee, including representatives from Austrade, AusAID, the Australian Taxation Office, Centrelink, the Department of Finance and Deregulation, the Department of Foreign Affairs and Trade, and the Department of Immigration and Citizenship.

### **Governance framework audit**

As part of ongoing work to strengthen Austrade’s governance framework, an independent review of the overall framework is being commissioned. The objective of the audit is to provide:

- an assessment of Austrade’s governance framework (including changes implemented over the past 12 months),
- practical recommendations on how Austrade can further strengthen the current framework, and
- integrity (and performance) indicator recommendations which will assist Austrade to measure the effectiveness of the governance framework in the context of its business objectives.

The Australia New Zealand School of Government (ANZSOG) has been asked to complete the review. In undertaking the above tasks ANZSOG have been asked to consider any issues or aspects of Austrade’s governance structure that they consider may improve Austrade’s framework. ANZSOG’s report will include identification of integrity (and performance) indicator recommendations which will assist Austrade to measure the effectiveness of the governance framework in the context of its business objectives.

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