

From Threats to Transformation: The Key Risks and Opportunities Shaping the Government Sector

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Successful organisations view challenging conditions as catalysts to improve productivity, resilience and service outcomes, actively identifying opportunities where others see constraints.

Over the last 13 years, Protiviti has issued annual research reports on the top risks faced by leaders globally. This year, we place a stronger emphasis on opportunities that help organisations proactively respond to emerging trends, economic shifts and rising citizen expectations. Organisations that balance risk management with transformation are better equipped to improve service delivery, enhance their resilience, adapt to change, and achieve their strategic objectives.

Our 14th annual [Executive Perspectives on Top Risks and Opportunities Survey Report](#) contains insights from 1,540 board members and C-suite executives around the world regarding their views on:

- Three specific areas of opportunity considering the current environment;
- Opportunities and challenges associated with the transformative impact of artificial intelligence (AI) on their organisations;
- The top risks on the horizon for the near term (two to three years ahead) related to 28 specific risks across three dimensions (macroeconomic, strategic and operational) and for the long term (a decade from now) related to 12 risk themes that consider the strategic and operational near-term risks; and
- A discussion of their organisations' near-term strategic investment priorities, given the opportunities and the risks they face.

Our survey participants shared their views through an online survey conducted from early September through mid-October 2025. This paper offers specific insights into these issues from the perspective of the government sector.

Where do leaders in the government sector see the greatest opportunities over the next two to three years?

Australian government executives zoomed in on two key near-term opportunities: Ecosystem development (defined as technology partnerships and structured third-party utilisation) and expanding and protecting government revenue bases.

Ecosystem development has emerged as a key strategic opportunity as agencies face mounting pressure to modernise service delivery, enhance interoperability across government agencies and lift productivity while maintaining security. This shift is critical to enabling whole-of-government transformation as expectations for digital service delivery continue to rise.

For government entities, ecosystem partnerships deliver several key advantages:

- Access to specialised digital and AI skills not available in-house
- Faster implementation and scaling of new solutions
- Shared investment and risk, rather than full internal ownership
- Safe piloting of emerging technologies before broad rollout
- Avoidance of costly bespoke internal builds

Leaders also highlighted a focus on strengthening revenue sources, optimising costs and delivering productivity gains in the near future. Some of the optimism is due to major reforms enabling new revenue frameworks. These include broader tax reform discussions and changes to established taxation frameworks. The transition to net zero, under Australia's Net Zero Transition Plan, is accelerating business investment in clean energy and climate technologies and creating new areas of economic activity and potential revenue streams.

At the same time, there is a concerted effort in government to optimise budgets and cut costs. Technology adoption, especially automation and AI, is key to these opportunities. Agencies are looking for opportunities to embed automation and AI into core processes to close efficiency gaps, reduce fraud, improve tax collection, and streamline administrative workloads. Third-party/ecosystem partnerships can assist agencies with achieving these goals quickly, safely and efficiently.

What will be governments’ most significant challenges regarding the impact of AI over the next two to three years?

Top priorities – impact of AI
Significant AI investments with uncertain returns
Inability to deploy AI at a competitive pace
AI’s disruptive impact on our business model
Equipping our workforce to realise AI’s value proposition

The top AI-related concerns of government executives highlight a clear tension. Leaders are balancing the need to ensure AI investments are fiscally responsible while also accelerating adoption to keep pace with expectations. For government, this balance is particularly acute given fiscal constraints and the need to maintain public trust in the use of data and emerging technologies. AI adoption requires significant upfront investment in technology and data infrastructure, new processes, strong governance to protect sensitive government and citizen data, particularly as AI adoption increases, and workforce training. The return is highly dependent on the capability being delivered, the adoption pace, risk management and, not least, public trust and adoption. Some smaller agencies operating on significantly older systems may require even costlier investments in technology upgrades before they even consider adding AI capabilities.

AI adoption is further challenged by insufficient skills availability, concern number three. The 2025-2026 Mid-Year Economic and Fiscal Outlook (MYEFO) notes that only 12.4% of APS staff are in data and digital roles, highlighting a capability constraint in scaling AI solutions quickly. To scale quickly, agencies must upskill a larger percentage of the workforce quickly, or rely on external contractors and subject-matter experts for support, another cost factor.

Given these realities, to say that AI will have a disruptive impact on government’s “operating model” is an understatement but also a recognition of an imperative and an opportunity. The National AI Plan, led by the Department of Industry, Science and Resources, is Australia’s strategic blueprint that directs investment to uplift capabilities and modernise digital infrastructure within both government and business to enable a competitive, productive and resilient economy. At the same time, the Digital Transformation Agency (DTA) is setting guardrails by reinforcing the importance of safety, transparency and accountability across the Australian Public Service (APS), through its Policy for the Responsible Use of AI in Government.

The national momentum around AI is a huge opportunity for Australia’s government agencies. They can work with experts to identify the use cases with the biggest ROI, make strategic technology upgrades or create strategic technology partnerships, thoughtfully upskill the workforce by emphasising the opportunities, benefits and safety imperatives, improve the productivity of service delivery, and reinvest the returns from the realised efficiency gains into further maturing this new operating model while maintaining strict guardrails around transparency, accountability and public trust.

What are the most significant short-term (two to three years) concerns and risks on the minds of government executives?

Top five near-term risks
Emergence of new risks from implementing artificial intelligence
Adoption of new and emerging technologies elevating the need to upskill/reskill our workforce
Operations and legacy IT infrastructure unable to meet performance expectations
Third-party risks
Economic conditions, including inflationary pressures

The prioritisation of AI-related risks reflects the national focus on leveraging AI for productivity and economic growth. AI has become a cornerstone of the Australian Government’s modernisation agenda, driven by the National AI Plan and recent policies for responsible AI use. However, rapid adoption of AI introduces significant risks, including disruption to operating models while services must remain uninterrupted, legacy infrastructure failing to meet performance and security expectations, and a workforce that may not yet have the capability or confidence to maximise the opportunities of AI.

The workforce near-term concern stands on its own as capability gaps remain a significant barrier to scaling modernisation initiatives. Agencies face the dual challenge of equipping their workforce with the skills to leverage AI effectively while addressing fears of job displacement. Targeted training and new management methods for a blended human-AI workforce are essential to ensuring workers feel empowered by, not apprehensive of, AI deployments.

Legacy IT systems in Australia’s public sector have long been a source of operational risk. While digital services expanded during COVID-19, many were built on outdated, patched systems that now struggle to meet performance expectations. Modernising these systems is not just about efficiency — it’s a matter of security and resilience. Without robust, scalable infrastructure, integrating AI and other emerging technologies becomes increasingly difficult, leaving agencies vulnerable to cyber threats and operational failures.

Reliance on third-party vendors for technology, cloud services, and critical infrastructure has grown significantly as agencies seek to acquire new capabilities quickly. This dependency introduces vulnerabilities, including risks associated with foreign-sourced technology as geopolitical tensions rise. Proper oversight and risk management for supply chain partners and external providers is critical, given the increasing frequency and sophistication of cyberattacks targeting government systems.

Economic pressures are a salient concern, reflected in rising costs and tightening budgets for agencies nationwide. Government must explore sustainable funding approaches beyond traditional taxation; technology investments hold the biggest promise to reduce operational costs in the long term by streamlining processes and reducing redundancies.

Based on these near-term risk issues, in what areas is the organisation likely to invest the most over the next two to three years, and why?

Top areas of investment
Infrastructure modernisation
Sustainability initiatives
Data privacy
Cybersecurity

Upgrading digital, data, and ICT infrastructure is essential to improving government productivity, enabling AI adoption, and supporting long-term economic performance. Many agencies continue to operate on legacy systems that hinder these objectives. Infrastructure investments are focused on cloud migration, re-platforming outdated software, and building modern system architectures that support interoperable services and AI-driven innovation. These upgrades not only enhance operational efficiency but also create the robust digital foundations required for secure digital adoption and scalable transformation.

Sustainability investments are tied for first place, driven by Australia’s legislated target to achieve net-zero greenhouse gas emissions by 2050 and climate reporting obligations for government entities.¹ The government is directing significant spending toward clean energy, electrification, hydrogen and renewables to meet these ambitious goals. These investments align with regulatory frameworks that mandate transparent climate planning and reporting, sustainable procurement, and green trade agreements. Beyond compliance, sustainability is viewed as an economic opportunity—fostering growth in industries transitioning to clean energy technologies and supporting new economic activity linked to green trade and carbon-related policy mechanisms. Sustainability initiatives are central to both environmental responsibility and the government’s broader economic strategy.

Data privacy and cybersecurity remain critical areas of focus as the Australian Government scales digital services and integrates AI into public administration. Lawful and ethical data use, privacy-by-design practices, and robust data governance are essential to maintaining public trust and align with policies for responsible AI governance. Investments in secure cloud adoption and protective security further reinforce the government’s commitment to secure digital adoption, maintaining trust in government systems, and ensuring resilience.

¹ [Commonwealth Climate Disclosure Policy | Department of Finance](#)

How do government leaders view the 10-year risk outlook for their organisation?

Top long-term challenges
Markets and economies
Security and privacy
Sustainability
Talent challenges
Customers and competition

The top long-term themes prove that Australia’s government leaders are thinking holistically about multiple priorities that will continue to shape their agendas. Markets and economies reflect continuing geopolitical flux, supply chain disruptions, inflationary pressures and nationwide reform initiatives. The focus of governments will be on modernising economic frameworks, diversifying trade and stimulating investment in critical sectors such as health, renewable energy and advanced manufacturing, as well as AI.

Security and privacy remain paramount for Australian government executives as digital transformation accelerates and ecosystem relationships expand. The updated Privacy Act is driving investment in robust cybersecurity, secure cloud adoption, zero-trust architectures, and improved identity management. High-profile cyber incidents targeting hospitals, law enforcement, and municipal systems underscore the urgency of protecting sensitive data and critical infrastructure, and cyber risk management is vital as agencies embed AI in processes to ensure system integrity and maintain public trust.

Sustainability will remain in sharp focus for Australia’s governments who are increasingly integrating sustainability considerations into infrastructure upgrades, mobility plans, and procurement criteria, aligning public sector action with industry transitions and citizen expectations for environmental responsibility and ensuring long term resilience.

Also included in the 10-year themes are talent challenges and customers and competition, both tied to the digital imperative discussed earlier in this brief. The demand for digital and green skills far outpaces supply in government, making workforce capability uplift a major challenge. Competition for digital talent from the private sector means governments need to provide useful and lucrative training while adopting flexible work models and new management methods for a blended human-AI workforce. Addressing morale issues and attracting diverse talent is essential to scaling modernisation and ensuring successful transformation.

Finally, agencies must blend digital innovation with authentic customer engagement, responding quickly to shifting attitudes and the rise of the conscious consumer, especially around sustainability and data privacy. Public trust will go to agencies that deliver responsive, value-driven experiences and leverage technology to improve service delivery.

Guidance/call to action for next two to three years

The challenge for government leaders is to turn the challenges and opportunities identified in the survey into concrete government actions with measurable outcomes. Our recommendations include:

- **Modernise digital foundations to unlock productivity:** Prioritise replacing legacy systems, migrating to secure cloud environments and building interoperable, scalable architectures to strengthen resilience and improve service delivery.
- **Expand trusted technology ecosystems:** Form strategic partnerships with trusted providers, enabling agencies to tap into specialised digital and AI innovation, accelerate delivery, and access scarce capabilities without placing additional strain on internal budgets, workforce capacity or long development cycles.
- **Accelerate workforce capability uplift:** Scale APS-wide training in digital, AI, and data skills; redesign roles and management methods for a blended human–AI workforce; and provide targeted support for smaller agencies with limited digital maturity.
- **Embed productivity-focused automation across operations:** Prioritise automation and AI use cases that deliver measurable productivity gains — such as fraud detection, compliance processing, system development, customer experience and case management — while reinvesting efficiency savings into further transformation.
- **Strengthen cybersecurity and resilience:** Evolve cybersecurity posture through zero-trust models, unified identity management, uplifted protective security, and integration of cyber risk considerations into AI, cloud and legacy modernisation initiatives.
- **Embed sustainability and climate-readiness into investment decisions:** Align infrastructure upgrades, procurement policies and service transformation efforts with Australia’s net-zero targets and emerging climate reporting obligations, ensuring long-term resilience and economic opportunity.

About the author



Gihan is a managing director at Protiviti Australia with over 18 years of professional services expertise in the provision of assurance, program and project management, probity and strategy consulting services to Australian Government entities.

Gihan has a proven capability of delivering high quality, pragmatic and influential advice to solve complex problems in the areas of governance, performance, strategy, risk management, internal control and legislative compliance. Gihan has extensive experience with large, high profile and complex government programs, from both a delivery and assurance perspective. This includes nationally significant programs, budget measures and organisational transformations, particularly in the health and social services sectors.

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