DISCLOSURES OF CORPORATE GOVERNANCE IN THE PUBLIC SECTOR: AN EXPLORATORY STUDY

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ABSTRACT
The principles of corporate governance have been applied in the private sector for many years but have only been introduced into the public sector in recent times. While there is general agreement on its meaning in a private sector context, in the public sector, corporate governance is an expression which is yet to be explicitly defined. This paper examines the existing public sector literature in order to derive a set of broad principles of corporate governance in the public sector. These principles are then applied through a content analysis of corporate governance disclosures in a sample of Government Owned Corporations (GOCs), State Government Departments, Local Governments and Statutory Bodies. The results indicate the set of principles derived are generally applicable to various forms of public entities. However, due to a lack of an established public sector corporate governance framework, the disclosure of corporate governance is piecemeal. Government Owned Corporations achieved better disclosure practices in most principles than other public sector bodies. The paper aims to stimulate debate on public sector corporate governance and provides a basis for a more extensive survey on corporate governance disclosures.

Key words: Public sector, corporate governance, disclosures, local government, government department, Government Owned Corporations, and statutory bodies
Corporate governance is a concept that has received growing attention in the private sector since the late 1980s. Like many of the private sector management philosophies, there has been increasing worldwide attention paid to corporate governance in the public sector. In Britain, the Chartered Institute of Public Finance and Accountancy (CIPFA) issued a public sector corporate governance framework that is considered as one of the early works on corporate governance in the public sector. In Australia, the Australian National Audit Office (ANAO) has issued a paper entitled Applying Principles and Practice of Corporate Governance in Budget Funded Agencies in 1997. Apart from this initiative, the ANAO has also completed performance audits dealing with corporate governance in the Australian Tourist Commission (ANAO 1997-98) and the Australian Electoral Commission (ANAO 1998-99). At the State level, the New South Wales Audit Office (NSWAO) issued a performance audit report which examines corporate governance in principle, and reports on corporate governance practices by NSW public sector boards (NSWAO 1997a, 1997b, 1997c). The Queensland Audit Office (QAO) has recently undertaken a review of the corporate governance and risk management practices amongst thirteen budget funded government departments (QAO 1999). The Joint Committee of Public Accounts and Audit (JCPAA) announced in May an inquiry into corporate governance and accountability arrangements for Commonwealth Government Business Enterprises (JCPAA 1999). Audit Offices view sound corporate governance as the cornerstone to sound stewardship, effective management, and attainment of performance objectives (ANAO 1997; QAO 1999). The creation of strong corporate governance frameworks is regarded as a mechanism to prevent any unintended consequences of the new management ethos, without necessarily inhibiting the flexibility, innovation and entrepreneurial risk taking now required. Moreover, developments in the public sector such as compulsory competitive tendering, the creation of discrete business units and a more entrepreneurial style of management have bought about a climate and culture different from the traditional public service ethos. As Hepworth (1994 p9) has argued “the process of change emphasises the need for extra vigilance and care to ensure that sound systems of corporate governance are both set in place and work – and are seen to work – in practice”.

While attention in Australia has come from Audit Offices (Barrett 1997b), increasingly, Treasuries and Departments of Finance and Administration have legislated for some aspects of corporate governance to be reported in the annual reports of agencies (see, for example, Part 5 of the Queensland Financial Management Standard 1997). However, there is a lack of reporting on governance practices, and a diversity in what is reported. Further, “governance issues are complicated because governance is not clearly defined” (NSW Audit Office 1997a, p5). Moreover, corporate governance in the public sector has become an important issue following the recent adoption of accrual accounting and accrual output budgeting. As more controls are devolved to agencies, this has raised the need for entities to have a corporate governance system in place to oversee planning, budgeting and performance management of that entity.

While the principles of corporate governance generally apply to both private and public sector organisations, most of the above initiatives recognise the distinctive requirements of the public sector. As the ANAO (1997, p.1) concludes “the political environment, with its focus on checks and balances and value systems that emphasise issues of ethics and codes of conduct, implies quite different corporate governance frameworks” for the public sector.
Until recently, there has been scant literature on public sector corporate governance. Not only does the term ‘corporate governance’ need to be clearly defined and understood, but a governance model should be developed for the public sector which has a “consistency of approach across the public sector” (NSW Audit Office 1997a, p7). Indeed, as Hodges et al (1996) observed, the challenge to the public sector as a whole is “to devise systems of governance that can both provide assurance to stakeholders that the sector is in capable and honest hands, while at the same time, avoiding the negative effects of tight control and bureaucracy, to enable performance objectives to be achieved and improved” (p12). The time is ripe for a detailed consideration of public sector corporate governance, and an appraisal of the literature. As Whiteoak (1996) has argued, there is a risk that momentum can develop on a topic on an ad hoc basis without first examining and understanding the basic principles. Structural solutions can be proposed and recommended and this can “direct attention from the wider issue of corporate governance” (p. 23).

This article has two objectives. First, it reviews the extant literature in order to clarify the issues and principles of key concern to the corporate governance of public sector organisations. It should be established that the article considers how public sector organisations govern/structure themselves to carry out their objectives, it does not consider broader issues in public sector modes of governance. Indeed this latter question is adequately covered in the literature (see for example, Ezzamel and Willmott 1993, Ferlie et al. 1996a, and Ferlie et al. 1996b). The second objective is to use the disclosures in annual reports to examine the meaning construed by government agencies on the term “corporate governance” in the public sector. While not pretending to offer more than an elementary empirical analysis, this paper contributes to an understanding of governance systems in the public sector.

The article proceeds along the following lines: the first section examines the meaning of corporate governance, the next section then examines existing literature to understand the state of the art on corporate governance, while the final section analyses the corporate governance arrangements in place by a selection of Queensland government agencies. The article concludes by drawing attention to areas for further research and raising the implications of the analysis for public sector annual reporting.

THE CONCEPT OF CORPORATE GOVERNANCE

The meaning of the term ‘corporate governance’ is a subject of considerable debate. In the private sector, the most often quoted definition of corporate governance comes from the Cadbury Report (1992). Corporate governance is defined as “the system by which companies are directed and controlled” (p. 15). Corporate governance, it is argued, is a function of the board of directors. Hardman (1996, p. 235) expands on this when he argues that corporate governance in the private sector is “concerned with the way the directors control the activities of the company and ensure that the managers to whom they delegate many functions are accountable.” The OECD (1998, p. 93) suggests “corporate governance refers to the mechanisms by which enterprises are directed, and in particular, to the means by which those who control an enterprise’s on-going operations are held accountable for that enterprise’s performance”. Barrett (1997a, p3), argues that “the principles of corporate governance are the same in both the public and private sectors. Good corporate governance requires clear
definitions of responsibility and a clear understanding of relationships between the organisation’s stakeholders and those entrusted to manage its resources and deliver its outcomes.”

There is an increasing recognition that the concept is more about finding ways to ensure that decisions are made effectively in a “governed” rather than “managed” sense (Barrett 1997b). There is a difference between these two concepts. The role of management is primarily concerned with running the business operations efficiently and effectively within the boundaries of the organisation under which it operates. By contrast, the governance role is concerned with “giving overall direction to the enterprise, with overseeing and controlling the executive actions of management and with satisfying legitimate expectations for accountability and regulation by interests beyond the corporate boundaries” (Tricker 1984, pp. 6-7). Therefore, “if management is about running business; governance is about seeing that it is run properly” (Tricker 1984, p. 7).

Tricker (1994, p. 149) argues that there are two aspects of corporate governance: conformance and performance. Conformance, he argues “consists of two elements, firstly monitoring and supervising executive performance, and secondly maintaining accountability to all those with the legitimate right to expect that feedback” (p. 150). Performance, on the other hand, consists of strategy formulation and policy making, and is thus the contribution of those who govern the organisation to its performance (Tricker 1994, pp. 149-150). While it is the conformance aspect of corporate governance that is emphasised in the private sector, in the public sector it is argued that the performance dimension is at least as important as the conformance dimension (Hodges et al., 1996). Barrett (1998) describes corporate governance in the public sector as “basically concerned with structures and processes for decision-making and with the controls and behaviour that support effective accountability for performance outcomes”. Carpenter (1998, p. 3) concurs, when he argues that corporate governance in the public sector is “largely about organisational performance…it is about people taking individual and collective responsibility for that performance”.

It would appear then, that an adequate definition of public sector corporate governance must acknowledge that corporate governance is about how the organisation is governed and how it is performing, and is about governance as opposed to management, that is, who or what mechanisms are there to oversee management. Having established the meaning of corporate governance in the public sector, the next section of this paper examines the principles of corporate governance as espoused in the literature.

**PRINCIPLES OF CORPORATE GOVERNANCE: THE STATE OF THE ART**

The issue of corporate governance in the private sector has been addressed since the early 1980s (Tricker 1984). However, following the October 1987 stock market crash and some spectacular corporate scandals, the issue of corporate governance was brought into sharp focus. Many countries in the Western world have responded to these events with structural solutions, in particular, increasing the disclosure of corporate governance practices in company’s annual reports. For example, both the Toronto and Montreal Stock Exchanges have required companies to disclose their corporate governance practices since 1995. In Australia, the Australian Stock Exchange in 1996 introduced Listing Rule 4.10.3 that requires all listed companies to include in their Annual Reports a statement of the main Corporate Governance Practices in place during the reporting period.
United Kingdom experience

In the UK, a formal committee was set up to address the financial aspects of private sector corporate governance in the UK. The Cadbury Committee (1992) was set up by the Financial Reporting Council, London Stock Exchange and British accounting profession in May 1991 to address the financial aspects of corporate governance. The Report of this Committee (known as the Cadbury Report) was subsequently published in December 1992. The Report identified three fundamental principles of corporate governance: openness; integrity; and accountability.

The report argued that an open approach was needed in order to ensure that all interested parties are confident in the organisation itself. Being open in the disclosure of information leads to effective action of boards and lends itself to necessary scrutiny. Integrity was described as “straightforward dealing and completeness” (p16). Financial reports, it was argued, should be honest and should present a balanced view of the state of the organisation’s financial affairs. The integrity of financial reports depends upon the integrity of those who prepare and present them. On the third principle, accountability, it was argued that boards of directors are accountable to their shareholders through the quality of information they provide. In turn, shareholders need to exercise their responsibility as owners.

Since the Cadbury Report was directed at private entities whose performance can be monitored by the capital market, the conformance or stewardship aspects of corporate governance were emphasised. This was to be expected as the Committee was enquiring into the financial aspects of corporate governance. Notwithstanding these shortcomings, the Cadbury Report was used as the foundation for the development of the first public sector corporate governance framework by the British Chartered Institute of Public Finance and Accountancy (CIPFA) in 1995.

The CIPFA (1995) framework drew heavily on the Cadbury Report, keeping the three basic principles of openness, integrity and accountability. However, it did acknowledge the distinctive characteristics of the private and public sectors, and the fundamental principles of Cadbury have been refined in the CIPFA framework to reflect its public sector context. The CIPFA framework emphasises the importance of the diversity of stakeholders in the public sector, and the need for integrity, honesty and high standards of propriety and probity in the stewardship of public funds and management of an agency’s activities. One of the additional features of the CIPFA framework is the emphasis on the diversity of objectives of public sector organisations, and the need to include performance information in any corporate governance framework.

The use of the Cadbury report as the starting point for the development of a public sector framework has been applauded by some (see for example, Whiteoak 1994 and Percy 1994), but received criticism by others. One of the major concerns of the Cadbury approach is its lack of public accountability consideration. As Jones & Stewart (1994) commented, “the (Cadbury) report was directed at the private sector, but many of the problems encountered in appointed boards are less likely to be due to a failure to apply private sector approaches, but because they were applied without regard to the demands of public accountability” (page 8). This tendency of the public sector to reach for “ad hoc structural solutions, without first understanding the basic aims and principles and the complex, legislative and political framework” of the public sector has also been made by Whiteoak (1996 p. 29).
A further development in the establishment of a corporate governance framework for the public sector has come through the work of the Committee on Standards of Conduct in Public Life (Nolan 1995). Its aim was to examine concerns about standards of conduct of holders of public office and to make recommendations so that the highest standards of propriety in public life are ensured. Although the CIPFA’s framework incorporates six of the seven principles from the Nolan report, (Nolan, 1995) Nolan includes ‘leadership’ as one of the principles of public life. Leadership is an important dimension of a public sector framework as it basically reflects a performance dimension of corporate governance, which appears to be more appropriate to the public sector, rather than the conformance dimension prevalent in the private sector. The importance of the performance dimension to the public sector was discussed in the previous section.

While frameworks for corporate governance have been proposed for ‘quangos’ and central government, the area that has not received any sustained attention is local government (Whiteoak 1996). Whiteoak (1996) notes that attention in the UK to local government corporate governance is piecemeal. He criticises the UK Audit Commission’s recommendation of establishing audit committees in local authorities as an “ad hoc structural solution” to corporate governance which has been proposed “without first understanding the basic aims and principles and the complex legislative and political framework which already exists” (p29). Nevertheless, Whiteoak (1996) has argued in the case of local government, that leadership is a crucial component of any corporate governance framework.

While the above British works have been useful in emphasising the performance aspect of corporate governance in the public sector, one of the drawbacks of those frameworks is that they are based on broad principles (openness, integrity and accountability). The detailed operationalisation of these principles may pose problems at an agency specific level.

**Australian experience**

There are three main documents which have advanced the understanding of the meaning of public sector corporate governance: the Australian National Audit Office’s *Applying Principles and Practice of Corporate Governance in Budget Funded Agencies* (ANAO 1997), the New South Wales Audit Office’s *Performance Audit Report on Corporate Governance* (NSWAO 1997a) and the Queensland Audit Office’s *Corporate Governance: Beyond Compliance* (QAO 1999).

The ANAO focussed on the corporate governance structures within Commonwealth Budget-funded agencies. It developed five key operating principles which address both the conformance and performance dimensions of corporate governance. These principles (ANAO 1997, pp 5-6) are outlined in Table 1. As can be seen from Table 1, the ANAO framework has incorporated themes from UK documents (including leadership). However, it emphasises the importance of the performance aspects of corporate governance, by including “leadership” as well as “risk management” as principles of corporate governance for budget sector entities. The Australian and New Zealand Standard on Risk Management (AS/NZS 4360, 1995 p. 2) describes risk management as “an iterative process consisting of well-defined steps which, taken in sequence, support better decision making by contributing a greater insight into risk and their impacts. The risk management process can be applied to any situation where an undesired or unexpected outcome could be significant or where opportunities are identified”. “Risk management then, is the term applied to a “logical and systematic method of identifying, analysing,
assessing, treating, monitoring and communicating the risks associated with any activity, function or process in a way that will enable organisations to minimise losses and maximise opportunities” (p. 6).

### Table 1
Five Principles of Corporate Governance Established by ANAO

<p>| | |</p>
<table>
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| 1. | **Leadership**  
The Chief Executive Officer’s (CEO) role in governance is essential. The effectiveness of an agency is reflected in the way the organisation as a whole works under the leadership of the CEO. Apart from the CEO, executive management must have a collective ability to provide leadership. |
| 2. | **Management Environment**  
The management environment of an agency sets in place the broad principles under which it operates. These include setting clear objectives and an appropriate ethical framework, defining roles and responsibilities, implementing sound business planning, and encouraging business risk assessment. |
| 3. | **Risk Management**  
Risk management establishes a process of identifying, analysing and mitigating risks that could prevent an agency from achieving its objectives. It includes making links between risks and returns and resource priorities, and putting control mechanisms in place to manage risk throughout the agency by developing fraud and risk management plans. |
| 4. | **Monitoring**  
Monitoring provides periodic review of control systems to ensure the continuing effectiveness in pursuit of the agency’s objectives. |
| 5. | **Accountability**  
A government agency’s line of responsibility and accountability is through the CEO to the responsible Minister and to the Parliament. Accountability is achieved through effective internal and external reporting on conformance and performance against its objectives. |

Source: ANAO 1997

Boyd (1997 and 1998) concurs with ANAO in arguing that risk management is one of the fundamental principles of corporate governance. Boyd argues that effective risk management requires an assessment of all areas of operation and the risks associated with each, and moves the focus of an organisation away from the past and into the future.

The publication of the ANAO framework has been important in the consideration of corporate governance frameworks in the Australian public sector. It is a framework for budget funded agencies, but the ANAO themselves argue that the principles “may also be of interest to CEOs of public sector entities which are closer in purpose and structure to private sector corporations” (ANAO 1997, p. 1).

Unlike the above literature which is concerned with the establishment of various frameworks of corporate governance, the New South Wales Audit Office’s *Performance Audit Report on Corporate Governance* is essentially a report on corporate governance practices amongst NSW public sector boards. The report was presented in two volumes. *Volume One: in Principle* considers relations between the Government and boards, and the extent to which boards add value. *Volume Two: Corporate Governance in Practice* reports upon how actual corporate governance practices by NSW public sector boards compare with better practice. However, the Report does highlight the complexities surrounding accountability in the public
sector due to the multiple accountabilities, both to those internal to the organisation and those external. It is argued that each of these stakeholder groups may have different objectives for the organisation, which may impact on performance measures. An important point for this research is that in the case of boards where many would argue models can be gained from the private sector, the report argues that there are inherent tensions between boards and government since corporate governance frameworks are not clearly established. It should be emphasised that the NSW report did not address the budget sector, where the impact of multiple accountabilities may in fact be more pronounced.

The recently released Queensland Audit Office’s report on Corporate Governance reviewed the corporate governance and risk management practices of thirteen budget funded agencies in the Queensland public sector. While the report did not explicitly set out an overall corporate governance framework for public sector agencies it acknowledged that corporate governance embodies frequently used management tools, but that its value lies in the fact that it draws these tools together “into a logical, interrelated set of elements which have universal application” (QAO 1999, p3). Further, it reinforced the current thinking that corporate governance contains elements of both conformance and performance, and that leadership and risk management are fundamental elements of an overall corporate governance framework. On the issue of external accountabilities the report recommended that although not a statutory requirement “all public sector agencies should disclose comprehensive information on their governance framework and practices in their annual reports” (QAO 1999, p42).

The emphasis in Australia, in line with the situation in the UK, has been on budget funded departments, and there has been no published literature on the issue of corporate governance in Australian local governments.

In summary, due to the pre-eminence of the Cadbury-based framework, earlier literature focussed on the conformance aspects of corporate governance - the management environment, monitoring and accountabilities. However, it has been acknowledged that applying Cadbury’s framework to the public sector is not appropriate as the different accountability and political frameworks of the public sector need to be considered. Consequently, it has been recognised that performance is equally an important dimension of public sector corporate governance. Since performance is concerned about how the structure of governance motivates those in control to meet performance objectives in an efficient and effective manner, leadership and risk management have emerged as important components of corporate governance. It appears that the principles of leadership, management environment, risk management, monitoring and accountability are applicable elements for a corporate governance framework for all public sector entities (budget, non-budget and local government). Good public sector governance in all public sector organisations requires strong leadership, direction and the management of all activities to meet desired outcomes, and the reporting of those to the organisation’s stakeholders. Different public sector organisations may have different statutory and managerial frameworks, which impose different sets of accountabilities and will require different statements about the practice of corporate governance (Hepworth 1994). However, the same basic principles – of leadership, management environment, risk management, monitoring and accountability can be used against which to report practices. The next section will examine the reporting of corporate governance practices against these five principles.
CORPORATE GOVERNANCE DISCLOSURES – AN ANALYSIS OF SELECTED AGENCIES

Increasingly, public sector agencies are including a corporate governance section in their annual report. An analysis of the contents of what is reported will enable us to gain an understanding of what principles are encompassed within the corporate governance term. This section provides an exploratory study of the application of the principles previously discussed across public sector agencies in the three broad categories – budget, non-budget and local government.

Sample Selection

Each year the Institute of Internal Auditors of Queensland conducts the Queensland Public Sector Annual Reports Awards. For the purposes of the awards, agencies are classified into 4 categories:

- Government Owned Corporations (GOCs)
- State Government Departments
- Local Governments
- Statutory bodies

Public sector agencies are invited to nominate their agency’s annual report for these awards. Awards are made in each of these four categories. In addition, there are special awards. One category of special award is for the best Corporate Governance Disclosure. The judging process commences when the Institute of Internal Auditors of Qld selects a shortlist of those organisations which are to be considered for an award. The adjudication panel (which is comprised of representatives from various professional associations and academia) then decides on the award recipients from this list.

The short-listed agencies for the best Corporate Governance disclosure, for the 1998 awards, form the main database for this study. This group of agencies has already been acknowledged as having ‘good’ corporate governance disclosures. In the initial shortlist, 7 agencies were identified as eligible for an award: two agencies in the GOC category; one in the State government departments; one in the local government category and three in the Statutory Bodies category. Even though this is only an exploratory study, it was decided to increase the database to 20 reports – 5 agencies in each of the four categories. The primary basis of selection chosen for the additional agencies was the size of the agencies based on total revenue. As a second selection mechanism, the annual report had to have a section on ‘Corporate Governance’ (or similar as discussed in the next section) identified in the report. If this criterion was not satisfied then the selection moved to the next largest agency.

In implementing this criterion, Queensland Rail, CS Energy and the Port of Brisbane were added to the GOC list. In the case of government departments, the two largest departments, the Health Department and the Education Department were excluded on the basis they did not have a corporate governance section. The Departments of Public Works and Housing, Transport, Primary Industries and Main Roads were included. The situation in relation to local governments proved more problematic. The reports of all Councils with total revenue from $953,000 to $20,000 were examined – 21 councils in all. From this examination, only 2 local councils (as well as Redcliffe City Council which is already included in the data base) had corporate governance sections – the Brisbane City Council (with a revenue base of $953,000) and the Gold Coast City Council (with a revenue base of $352,506). This means though, that there were only 3 local councils which were analysed.
In the case of statutory bodies, the Queensland Treasury Corporation (the largest Queensland statutory body) and WorkCover were added. The list of agencies whose reports are analysed is contained in Table 2. This database is not meant to be a representative sample, but an appropriate data base on which to ‘test’ the applicability of the principles across the variety of public sector agencies.

Table 2  
List of Selected Agency's Annual Reports Analysed

<table>
<thead>
<tr>
<th>Government Owned Corporations (GOCs)</th>
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<tbody>
<tr>
<td>Queensland Investment Corporation (QIC)</td>
</tr>
<tr>
<td>Powerlink</td>
</tr>
<tr>
<td>C S Energy</td>
</tr>
<tr>
<td>Queensland Rail (QR)</td>
</tr>
<tr>
<td>Port of Brisbane Corporation (PBC)</td>
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</tbody>
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<table>
<thead>
<tr>
<th>State Government Departments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Queensland Treasury (Treasury)</td>
</tr>
<tr>
<td>Department of Primary Industries (DPI)</td>
</tr>
<tr>
<td>Department of Public Works and Housing (DPWH)</td>
</tr>
<tr>
<td>Department of Main Roads (Main Roads)</td>
</tr>
<tr>
<td>Queensland Transport (QT)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Local Governments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Redcliffe City Council (RCC)</td>
</tr>
<tr>
<td>Brisbane City Council (BCC)</td>
</tr>
<tr>
<td>Gold Coast City Council (GCCC)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Statutory Bodies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portable Long Service Leave Authority (PLSLA)</td>
</tr>
<tr>
<td>Building Services Authority (BSA)</td>
</tr>
<tr>
<td>Queensland Sugar Corporation (QSC)</td>
</tr>
<tr>
<td>Queensland Treasury Corporation (QTC)</td>
</tr>
<tr>
<td>WorkCover Queensland (WorkCover)</td>
</tr>
</tbody>
</table>

Method of Analysis

Each of the annual reports examined had a separate corporate governance section identified. In the case of the Portable Long Service Leave Authority, the section was entitled ‘Governance’. The Main Roads defined their section as ‘Corporate Management’ and the Public Works and Housing had a separate section on ‘Corporate Governance’ and one on ‘Corporate Management’. Because the Queensland Financial Management Standard defines ‘corporate management’ as including corporate governance \(^3\), the ‘Corporate Management’ section was also examined. In line with the objectives of the research, only text within this section of the annual report was analysed.

The contents of the ‘Corporate Governance’ section were analysed using content analysis. Content analysis is a research technique widely used in the social sciences which objectively and quantitatively examines written or oral communications in order to make inferences about values, meanings or understandings being conveyed (Riffe et al 1998, Rosengren 1981, and Holst 1981). It is an adaptable technique which has been used in a variety of situations in most disciplines. An integral aspect of theme analysis is the identification of key issues contained in an annual report. Neimark (1983, p. 19) argues that as the contents and format of annual reports are not pre-determined, an analysis of annual reports provides insights into
what “top management of the organisation chooses to communicate to its shareholders and the public”. In this research an examination of the contents of the ‘Corporate Governance’ section of annual reports can aid an understanding as to what top managers in the public sector consider corporate governance encompasses.

The use of theme analysis raises a number of methodological limitations to the analysis which must be acknowledged so the reader is not misled as to the precision of the results that are presented. The first limitation surrounds questions of internal validity, and these essentially relate to the validity of the study’s measurement model. The researchers identified key features of each of the elements of corporate governance. These are contained in Table 3. If there was evidence of the existence of the criteria then a ‘Yes’ rating was given for that element. It should be noted in this exploratory study, that no attempt is made to take into account the length of each disclosure, or to differentiate reports on the basis of the ‘quality’ of disclosures. The second limitation relates to the reliability of such an analysis. The allocation of the content of reports into categories based on their major theme is a subjective process. Researchers are often faced with a subjective choice in identifying whether an issue has been disclosed or not. To minimise possible bias created by researchers’ subjectivity for this project, the annual reports were analysed by each researcher independently according to the predetermined classification scheme (see Table 3). Any instance of disagreement was discussed between the two researchers and was able to be resolved by reference to the classification scheme. The third limitation relates to the external validity of the study; to what extent is such a study taken as a whole generalisable to the entire Australian public sector. This study was only meant to be exploratory, and as such only a small group of agencies in one jurisdictional setting were examined. Nevertheless, it is likely that given the relatively new and unexplored nature of this topic in the public sector, findings are applicable across other jurisdictions.

### Table 3
Classification Scheme

<table>
<thead>
<tr>
<th>Leadership</th>
<th>Evidence of a leadership function of the directing group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management environment</td>
<td>Evidence that a decision making structure exists or is in place to support the achievement of objectives</td>
</tr>
<tr>
<td>Risk Management</td>
<td>Evidence of a proactive and systematic approach to the management of risks</td>
</tr>
<tr>
<td>Monitoring</td>
<td>Evidence of review of control systems</td>
</tr>
<tr>
<td>Accountability</td>
<td>Evidence of reporting to stakeholders for conformance and performance purposes</td>
</tr>
</tbody>
</table>

### Findings and Discussions
The corporate governance sections of these sample entities’ annual reports range from half a page to 10 pages with the average length of disclosure being 5 pages. An analysis of corporate governance disclosures of these 18 entities using the 5 principles of corporate governance is contained in Table 4.
<table>
<thead>
<tr>
<th>Name</th>
<th>Length of Disclosure</th>
<th>Principles of Corporate Governance Disclosures</th>
<th>Number of “Yes”</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Leadership</td>
<td>Management</td>
</tr>
<tr>
<td>Government Owned Corporations</td>
<td></td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>QIC</td>
<td>7 pages</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Powerlink</td>
<td>6 pages</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>CS Energy</td>
<td>4 pages</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>QR</td>
<td>4 pages</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>PBC</td>
<td>2 pages</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>State Government Departments</td>
<td></td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Treasury</td>
<td>4 pages</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>DPI</td>
<td>4 pages</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>DPWH</td>
<td>5 pages**</td>
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<td>Yes</td>
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<td>Main Roads</td>
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<td>Yes</td>
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*: The analysis of this table is confined to the sections entitled “Corporate Governance”, “Corporate Management” or “Governance” of each annual report. Consequently, the outcome of “Yes” or “No” is restricted to the information provided under these sections.

**: In addition to the section entitled “Corporate Governance”, the 1997-98 annual report of the Department of Public Works and Housing included another 17 pages on “Corporate Management”. The analysis of these results is based on both sections.
It should be pointed out that the following findings relate to the disclosure in the corporate governance sections of sample entities. They do not mean that these entities have not disclosed relevant information. To the contrary, due to the current lack of a framework on corporate governance disclosure (see, also NSWAO 1997a, b & c), it is quite likely that some of the corporate governance information may have been disclosed elsewhere in the annual reports. The findings relate to two areas: first, the application of the principles across the entire public sector, and secondly, findings on individual principles.

In regard to the five principles of corporate governance, Table 4 shows that the extent of the applicability of these principles to the government departments was not significantly different from GOCs. It can be seen that the principles of corporate governance have some general applicability amongst the four different categories of public sector entities. With the exception of two government departments (Main Roads and Queensland Transport), all entities scored at least 2 principles out of a total of 5. Further, the applicability of these corporate governance principles appears to be more suitable amongst Government Owned Corporations (GOCs) than others with most of the entities in this category scored a higher “yes” classification. This is to be expected as GOCs are subject to similar scrutinies as private enterprises.

In terms of the reporting on the five principles, the monitoring principle received most disclosures with 15 out of a total of 18 entities disclosing monitoring. An explanation for this finding is that internal control has traditionally been emphasised by Treasuries and Audit Offices. Moreover, some authorities believe that internal control is corporate governance.

However, the disclosure of accountability appears to be most lacking with only 5 out of 18 sample entities (or under 30%) including information that meets the classification scheme. While it is possible that some information on accountability may have been disclosed under sections other than corporate governance, the complex nature of accountability issues in the public sector may have contributed to such a low disclosure result. Another explanation for this low result might be that since all public sector annual reports are tabled in the Parliament, there may be a tendency to presume that this is a major form of accountability and need not be reported in the annual report. Amongst the sample entities, GOCs tend to disclose more accountability information than other forms of agencies. This is due to the fact that the GOCs in the sample are subject to the Government Owned Corporations Act 1993 which requires them to report their Statement of Corporate Intent and a Corporate Plan to their Shareholding Ministers for their approval. Although three GOCs have been scored as meeting the accountability classification scheme in Table 3, it is to be noted that they, along with other agencies, have not made any attempt to disclose any other forms of accountability.

Table 4 shows that the disclosure of risk management amongst most of these sample entities has been adequately made (13 out of 18). This is probably due to the fact that risk management is currently receiving substantial attention in the public sector. For example, the Queensland Commission of Audit (FitzGerald et al 1996) has recommended that the Auditor-General be requested to report on the adequacy of risk management practices in agencies from time to time. The Queensland Financial Management Standard 1997 (sections 83-86) also requires agencies to manage risks effectively.

The disclosures of leadership as well as management environment amongst these sample entities achieved a score of well above 50%. While a disclosure of the leadership function may be made in other sections of the annual reports, 10 sample
entities were judged to have met the classification scheme on leadership. Comparing this disclosure pattern with other principles of corporate governance (e.g. monitoring and risk management), it is evident that this principle may not have received sufficient attention amongst these entities.

As to the disclosure of management environment, just over 60% of the sample entities received a “yes” classification. Management environment sets in place the broad principles under which an entity operates (ANAO 1997), and so the result may be considered surprisingly low. Further examination of the annual reports of those entities which did not receive a ‘yes’ decision showed that information on management environment was commonly disclosed outside the corporate governance section, reinforcing the claim that there is no generally accepted public sector corporate governance framework, but this is a desirable aim.

CONCLUSION
Over the past two decades in Australia, there have been dramatic changes to public sector management philosophies and to how the public sector conducts its operations. It has been argued that the change to the modes of conducting operations need sound systems of corporate governance in place, systems that work in practice and are seen to work (Hepworth 1994). The value of corporate governance frameworks is that they draw together a number of existing management tools “into a logical, interrelated set of elements which have universal application” (QAO 1999, p3). The debate about governance issues in the public sector has been relatively fragmented and limited, but is now gaining momentum with some Australian Audit Offices conducting reviews on aspects of public sector corporate governance. It is interesting to speculate why it is the Audit Offices in Australia which have shown the most interest in the issue. One possible explanation may be that they are raising the ‘agenda’ (Kingdon 1984, Cobb and Elder 1972) on this issue in a similar way they did for accrual accounting (see Ryan 1998). Once this has occurred it will then be the task of the central agencies to take up the issue in a policy formulation sense. On the policy formulation issue, given this paper has argued that corporate governance is more than financial compliance, but has elements of leadership, and management structures, it may be too important to be entrusted to one central agency, and may need the equivalent of Premiers/Prime Minister and Cabinet and Treasuries/Departments of Finance to collaborate and liaise on the development of an appropriate corporate governance framework.

Public sector organisations have varying and diverse structures and cover different levels of government. However, the advantages of applying one general corporate governance framework for all public sector agencies has been advanced by some researchers (see, for example, Hodges et al 1996). The paper has sought to examine the meaning of corporate governance, the kinds of issues agencies have to deal with as ‘corporate governance disclosures’, and to explore the possibility that a generic framework is suitable across all public sector agencies. There are advantages in pursuing a generic framework rather than the ‘bottom up’ approach where there are no standardised forms of reporting. While disclosures within the generic framework will most certainly differ for each agency, and for agencies at different levels (for example, local government compared to government departments), the major advantage is that agencies can disclose information, in a structured manner, about their achievements in either a qualitative or quantitative manner from year to year. The challenge for government at each level is to develop some performance indicators (whether these be qualitative or quantitative) on each of these principles that can be debated and trialed as a basis for meaningful disclosures about an agency.
While this paper provides some useful insights into corporate governance disclosures amongst public sector entities, limitations associated with exploratory studies are acknowledged. To overcome the limitation of the existing database, future research would need to expand the sample entities. For example, an analysis of public sector annual reports around Australia could be conducted to more extensively test the corporate governance framework developed. As a postscript, it would appear that it may be advantageous for the public sector to discontinue its use of the term ‘corporate governance’ because of its connection with the private sector, and adopt an alternative term such as ‘organisational governance’ instead. However, as Hawke (1998, p. 14) has said “corporate governance is essential…I doubt if corporate governance will be a passing fad, even if a new name is invented for marketing purposes".
END NOTES

1. The seven principles of public life established by the Nolan Committee (1995) are: selflessness, integrity, objectivity, accountability, openness, honesty and leadership.

2. Other special awards are: Best Value-for-Money Services, Best Corporate Performance Indicators, Best Financial Information, Best for the Achievement of Corporate Objectives, Best for Environmental Issues, Best Statement of Communication Objectives, the most Readable Annual Report, Best Disclosure of Internal Audit, and the Most User-Effective Annual Report.

3. Section 65 (1) of the Queensland Financial Management Standard 1997 describes corporate management as “the way the management of a department or statutory body controls the agency's functions and operations, and includes corporate governance”.

4. See, for example, a guideline issued by Queensland Treasury entitled Cost-Effective Internal Control.
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