

# **Taking Governance Seriously: Reform of Public Sector Audit Committees in New South Wales**

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# What this presentation will cover

- Survey debates about ‘corporate’ models of governance in the public sector
- Set out the governance model implemented in NSW in 2009 and its focus on ‘independent’ audit committees
- Explore key issues for control and accountability in ministerial departments and relevance for the New Zealand state sector

# So, what is 'governance'?

- 'magic concept' (Pollitt and Hupe 2009)
- OECD *Modernising Government: The Way Forward* 2005

'formal and informal arrangements that determine how public decisions are made and how public actions are carried out, from the perspective of maintaining a country's constitutional values in the face of changing problems'



## . . . and ‘corporate governance’?

- OECD *Principles of Corporate Governance* 2004  
‘set of relationships between a company’s management, its board, its shareholders and other stakeholders’ that provide ‘structures through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined’
- agency theory . . . align interests of controllers (managers) with owners (shareholders)

# What makes a 'good' Board?

## Hard controls

- separate roles of Chair and CEO
- majority independent directors
- small board size and balance of director skills
- audit committee

## Soft controls

- culture of trust and open dissent
- leadership skills of Chair
- information flows

# 'Corporate' governance model in the public sector

Non-departmental public bodies (NDPBs)

- statute based
- board or non-ministerial office-holder
- 'arms length'

Key differences

- minister appoints and is 'shareholder'
- multiple objectives
- 'public' accountabilities

Uhrig Review 2003 (templates)

# ‘Corporate’ governance in departments

## Departments of state

- maximise Ministerial control
- centralised reporting lines
- ‘responsive’ public servants

## Characteristics

- executive ‘boards’ informal and advisory
- responsibility for both management and governance rests with chief executive

Role of independent *internal* oversight?

# Audit committees: Status and role

- Oversight committee (board or standalone)
  - financial reporting
  - auditor independence (internal and external)
  - internal control
  - risk management
- Oversight role dependent on questioning process, information flow and communication with chief executive
- Effectiveness assumed: process is ‘black boxed’ (Spira 2003)

# NSW: Background to reform

- NSW Treasury *Internal Audit and Risk Management Policy for the NSW Public Sector* (TPP 09-5) August 2009
- Draws on:
  - ASX Corporate Governance Guidelines
  - ANAO Guidelines
- DPC Performance Review Unit Report *Review of Internal Audit Capacity in the NSW Public Sector*, March 2008

# NSW: The need for reform

Requirement	NSW (Govt)	VIC (Govt)	Qld (Govt)	Cwth (Govt)	Canada (Govt)	UK (Govt)	ASX (listed companies)	USA (listed companies)
Mandatory requirement for internal audit function	x	✓	✓	✓	✓	✓	✓	✓
Mandatory Audit Committee	x	✓	x	✓	✓	✓	✓	✓
Mandatory minimum governance requirements for Audit Committees	x	✓	✓	✓	✓	✓	✓	✓
Standards for internal audit activities	x	~	✓	✓	✓	✓	x	✓
Internal audit related reporting	x	✓	✓	✓	✓	✓	x	✓
Linkage with risk management	x	✓	✓	✓	✓	✓	✓	✓

# NSW: The reform model (structures)

## Independent Audit and Risk Committee

- 3-5 members, majority independent (incl Chair)
- independent = ‘prequalification’ through *DPC Prequalification Scheme for Audit and Risk Committees* + ‘conflict of interest’ test
- mandated charter that
  - excludes CE, CFO and CAE as non-independent appointments
  - consultation on CAE appointment and internal audit resourcing
  - external dispute resolution mechanism

# NSW: The reform model (compliance)

- Mandate on an ‘if not, why not’ basis
- Self-regulation compliance strategy, e.g. *ASX Corporate Governance Principles*, Principle 4
- Application to core public sector?
  - Ministerial exceptions process
  - ‘if not, why not’ annual report disclosure
  - Auditor General compliance audit

# Implications: Policy in practice

- Challenge to centralised authority of CE
- Introduces ‘external’ perspective / creates a countervailing authority within departments
- Raises next step governance issues:
  - Should departments have ‘governing boards’?
  - What is the impact on conventional understandings of Ministerial responsibility?



# Implications: relevance for New Zealand?

- Mandate or motivate? (Robertson 2006)
  - central agency leadership, clear authority, capacity building
- 2005 IIANZ & KPMG Survey
  - 55% committees chaired by CE
  - 11% majority independent members
- 2007 Treasury DICE – internal assurance mechanisms ‘generally good’
- 2008 OAG *Better Practice Guide*

# Key policy references

- **NSW Treasury *Internal Audit and Risk Management Policy for the NSW Public Sector* (TPP 09-5) August 2009**  
[http://www.treasury.nsw.gov.au/data/assets/pdf\\_file/0020/15077/tpp09-5\\_dnd.pdf](http://www.treasury.nsw.gov.au/data/assets/pdf_file/0020/15077/tpp09-5_dnd.pdf)
- **NSW Department of Premier and Cabinet *Prequalification Scheme: Audit and Risk Committees* (C2009-13) May 2009**  
[http://www.dpc.nsw.gov.au/publications/memos\\_and\\_circulars/circulars/2009/c2009-13\\_prequalification\\_scheme\\_audit\\_and\\_risk\\_committees](http://www.dpc.nsw.gov.au/publications/memos_and_circulars/circulars/2009/c2009-13_prequalification_scheme_audit_and_risk_committees)
- **NSW Department of Premier and Cabinet *Performance Review Unit Report Review of Internal Audit Capacity in the NSW Public Sector* March 2008**  
[http://www.dpc.nsw.gov.au/data/assets/pdf\\_file/0015/20166/IA\\_Report-Final\\_16\\_April\\_2008.pdf](http://www.dpc.nsw.gov.au/data/assets/pdf_file/0015/20166/IA_Report-Final_16_April_2008.pdf)