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REPUTATIONAL RISK AND ENVIRONMENTAL PERFORMANCE AUDITING: A Study in the Australian Commonwealth Public Sector

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ABSTRACT

Purpose: This paper examines how environmental performance auditing is framed or understood by auditors and various audiences. It then investigates how framing disputes (overflows) generate reputational risk to government.

Design/Methodology: This paper uses document analysis and semi-structured interviews to analyse: performance auditing processes within the Australian National Audit Office (ANAO); and ANAO's performance audits of the Australian government's Home Insulation Program (HIP) and Green Loans Program.

Findings: First, this study concludes that the roles played by performance auditors are more fluid and complex than the structuralist classifications employed in earlier studies (Pollitt, 2003). Second, it demonstrates how the frame(s) emphasised by various audiences such as the opposition and media underscore their role in a parliamentary democracy. Finally, it finds that ANAO's performance audits in-effect manage reputational risk to the government.

Research Limitations/Implications: Many performance audits are ignored by the general public, media and Parliament because they fail to address contentious issues. However, this may not worry ANAO since it is primarily concerned with improving performance in the public sector.

Originality/Value: This paper highlights the roles played by auditors and their audiences in accentuating and mitigating reputational risk. Despite references to reputational risk in both the performance auditing literature and the environmental auditing literature, previous studies have not analysed the process which links audits to reputational risk for auditees. In addition, previous studies on the impact of controversial audit findings in the public sector have focused on auditors rather than government. This paper demonstrates how contentious audits present opportunities for various stakeholder groups to damage a government's reputation by constructing performance accounts which blame government for program failures.

Keywords: ANAO, Environmental Auditing, Framing, Green Loans, Home Insulation Program, Overflows, Reputational Risk, Performance Auditing, Public Sector