

**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 Program² (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

Article Classification Case Study, Research Paper

INTRODUCTION

This paper examines the multi-faceted relationship between environmental performance auditing and reputational risk in the public sector. It analyses how environmental performance audits generate reputational risk to government through the actions of the media and political opposition. It also explains how that reputational risk is managed by bureaucrats and politicians in the government. This paper theorises reputational risk using ideas of framing (Goffman, 1974: 37) and overflow (Callon, 1998) as applied in the accounting literature by Christensen and Skaerbaek (2007).

The explosion of risk management in the late twentieth century (Power, 2004) characterises the emergence of a risk society in which organisations increasingly adopt risk management systems as a benchmark of good governance and legitimacy (Beck, 1992, Power, 2007). Risk management has also broadened beyond financial risk to encompass new categories such as operational risk and environmental risk. However, modern risk societies are particularly concerned with reputational risk, which is a “purely [hu]man-made product of social interaction and communication” (Power et al., 2009: 301-302). Consequently, for instance, organizations must manage the *reputational risk* from disasters like oil spills as well as the underlying *environmental risk* from such events. The reputation of individual organisations is increasingly challenged by stakeholders who are able to construct alternative accounts of organisational behavior and performance (Power, 2007).

Intensified concern with reputational risk reflects diminishing trust in institutions and professions (Power et al., 2009: 301), following high-profile accidents and failures in both the private and public sector (Hood, 2002). Declining trust has also contributed to greater demand for financial assurance and the application of auditing to new fields, notably environmental auditing and performance auditing (Power, 1997, Power, 2003).³ While new forms of audit may be intended to provide comfort to society, the performance auditing literature indicates that audit findings can also be used to blame government and damage its reputation. The political opposition, for example, may selectively highlight audit findings that indicate a program has failed to deliver value for money (Johnsen et al., 2001). Similarly, the media may emphasise audit findings that indicate abuse of power and privilege by government (Guthrie and Parker, 1999). Such controversy can be problematic since governments which interpret audit findings as an attack on their cabinet ministers or political party may retaliate against audit offices and auditors-general with varying degrees of hostility (English, 2003, Funnell, 2003). Therefore pragmatic auditors are expected to be particularly mindful of how their audit reports could reflect on, and be interpreted by, government.

Although performance audits deal with a diverse range of issues, audits of environmental programs are particularly relevant for understanding issues of reputational risk. More specifically, the literature on environmental auditing and assurance highlights a paradoxical association between auditing and reputation. On the one hand, entities may obtain environmental auditing and assurance to improve their credibility and reputation (Simnett et al., 2009). On the other hand, environmental audits could damage an entity's reputation if they expose issues of non-compliance which are subsequently disclosed to the public. Therefore entities face a conundrum because they cannot control the findings of an independent audit.

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. Several previous studies emphasise problematic consequences for controversial audit offices and auditors-general (Funnell, 2003, Guthrie and Parker, 1999, English, 2003, Jacobs, 1998) while other studies discuss rational responses adopted by audit offices to avoid controversy (Power, 1997, Radcliffe, 2008, Radcliffe, 2011). However, few studies have empirically examined the impact of controversial audit findings on government, given that contentious audits present opportunities for various stakeholder groups to damage a government's reputation by blaming it for program failures.

The remainder of this paper is organized as follows. The next section reviews relevant literature on reputational risk, performance auditing and environmental auditing. This is followed by a discussion of the theoretical framework for the study and an outline of the research design. Findings are then presented and discussed before the paper concludes.

LITERATURE REVIEW

Reputation is constructed through stakeholders' perceptions of an organisation (Bebbington et al., 2008). However, managers regard stakeholders with concern because they also represent a source of risk to the enterprise and its reputation. In particular, Power (2007: 133) observed that stakeholders can challenge organisational reputation by constructing alternative "social facticities" or accounts around disastrous events. Even if organisations do not accept alternative accounts of their performance as true, these accounts must be taken seriously and managed because they represent a source of reputational risk (Power, 2007). This is particularly evident with public beliefs about the environmental and social impacts of corporate activities (Power, 2007: 138). In the 1994 Brent Spar Episode, for example, Shell focused on technical analysis and rationale in deciding to dispose of toxic waste in the North Sea. Shell regarded water-based disposal as environmentally superior to

other methods of disposal and mistakenly assumed that environmental pressure groups and the general public would concur with its perspective. However, Greenpeace advocated an alternative account of Shell's performance which focused on dangers to humans and non-human life-forms. The Greenpeace account received prominence in the media, leading to public protests and consumer boycotts. These negative responses ultimately forced Shell to change its environmental policies, highlighting the powerful influence of external groups who are able to threaten organisations and their value.

Reputational risk can arise through break-downs in service delivery where consumers are "increasingly able to reverse burdens of proof about product safety and quality" (Power, 2007: 136). In this context, reputational risk can be understood as an expectations gap (Power, 2004: 20). This is particularly pertinent with delivery of government services, which represent an important interface between the state and its citizens. Failure to deliver to the standard expected by the public may constitute a reputational risk for the service provider, which is the government agency concerned. By extension, an expectations gap may also present reputational risk to the governing political party, especially if stakeholders hold it accountable for the failure. Performance audits may accentuate public controversy and debate by revealing or confirming that programs have failed to deliver expected outcomes. This can embarrass the government and damage its reputation.

A government's reputation could be further impaired when performance audit findings are used to advance political agendas. For instance, Johnsen et al. (2001) suggest the opposition may selectively highlight audits which conclude that programs are not delivering value-for-money. Therefore audited departments may be extremely vigilant in reviewing draft audit reports, to the extent that findings are cleared on a line-by-line basis. The motivation for such vigilance is to protect the government and its senior officials from embarrassment and retribution (Roberts and Pollitt, 1994). Conversely, government may attempt to enhance its own political capital by highlighting audits which support claims that programs are delivering value-for-money.

Some auditors may be reluctant to publish findings that provide ammunition which can be used against the government by opposition parties and the media. Radcliffe (2008) suggests that politically-appointed auditors minimise potential controversy from their audit reports by deliberately avoiding any references to issues which could embarrass government. Similarly, a US study found that the Government Accounting Office (GAO) conducts a risk assessment of how "value laden" congressional audit requests may be (Basu et al., 1999: 517). It is particularly wary of requests that appear to have foregone conclusions, since accepting such requests could invite factions in Congress to use the report to advocate their own agendas. Problematic consequences for

controversial audit offices have been highlighted in studies from Australia (English, 2003, Funnell, 2003, Guthrie and Parker, 1999), New Zealand (Jacobs, 1998), Scandinavia (Johnsen et al., 2001) and the United Kingdom (Roberts and Pollitt, 1994). In particular, governments may seek to curtail the powers of auditors whom they perceive as overly-confrontational. For example, some audit offices have experienced significant reductions in financial and human resources following perceived criticism of programs involving senior government officials or their colleagues and relatives (Guthrie and Parker, 1999).

In the public sector, many national audit offices audit environmental programs through their mandate for performance auditing.⁴ The environmental auditing literature highlights a paradoxical association between audits and organisational reputation. Since external environmental audits are conducted by independent auditors, they are more likely than internal audits to improve credibility and reputation, especially if they deliver favourable opinions which are disclosed publicly (Darnall et al., 2009). However both internal and external audits can generate reputational risk by exposing non-compliance. If an organisation becomes aware of problems through an environmental audit, it may try to correct them before they become worse. The organization may be legally required to disclose these problems or decide to disclose them voluntarily. Such responses may help the organisation to minimize reputational risk by demonstrating its responsibility and the measures it has put in place to correct the problem.

Performance auditors are acutely aware of public interest in their audit reports (Gupta et al., 1994: 273) and particularly sensitive to several audiences including Parliament, audited agencies, the media and the public. Multiple audiences could emphasise different functions of auditing and therefore present auditors with very different expectations. First, politicians can use performance audits to acquire political capital. More specifically, the government and opposition could selectively emphasise different sections of the same audit report to advance their own agendas (Johnsen et al., 2001). Previous studies have found that auditors are aware their findings could be used as political ammunition against the government (Basu et al., 1999, Radcliffe, 2008, Roberts and Pollitt, 1994). Second, a performance audit could be a tool for investigating issues which the public is interested in. In this regard, Basu et al., (1999) found that the US GAO generally assigned a higher priority to topics with a greater level of public interest. Third, environmental audits help entities proactively manage risks to program delivery by identifying and rectifying environmental issues before they develop into large problems (Darnall et al., 2009).

In addition to the different functions outlined above, performance auditors emphasise different aspects of their roles across jurisdictional boundaries. Pollit's (2003) study of supreme audit

institutions (SAIs) in Western Europe concluded that performance auditors can fulfil the role of public accountant, management consultant, judge and scientific researcher. First, auditors fulfil a public accountant role by providing independent assurance to Parliament; their audit reports contain information that can assist members of Parliament in holding government accountable. Auditors-General in Australia and New Zealand have also understood their role in terms of upholding public accountability (Guthrie and Parker, 1999, Jacobs, 1998). Second, performance auditors fulfil a role as management consultants, by helping audited agencies to improve their own performance (Jacobs, 1998). Third, some performance auditors fulfil a scientific research role, creating and disseminating knowledge about programs in the public sector. This could be interpreted as extending the role of management consultant beyond the audited agency by sharing useful information with other government agencies. Fourth, other performance auditors behave more like magistrates, by evaluating the legality of agencies' behaviour. However, this role may reflect specific aspects of the French or Continental European model of auditing. Interestingly, although each SAI was positioned closer to one role than others, Pollitt (2003) concluded that none of them was a 'pure' type and some SAIs appeared to play multiple roles.⁵

Research Problem

In summary, various audiences expect national audit offices to fulfil multiple roles which have some contradictory aspects. Consequently, performance auditors may find it challenging to reconcile the needs of different audiences such as Parliament and audited agencies. For example, if national audit offices emphasise issues of public accountability, government could accuse them of consorting with the opposition and lacking neutrality. However, if audit offices position themselves as management consultants, they could also be perceived as lacking neutrality by becoming too close to government agencies and prioritising their interests over public accountability.

Performance audits may generate reputational risk because neither auditors nor audited agencies can control how audiences use audit reports once they become public documents. In particular, audiences may construct performance accounts which differ from those advocated by the entity. Audiences can act individually or collectively and their agendas, interpretations and reactions may differ from those of auditors.

Although previous studies have identified these dilemmas, they have not examined the practical ways in which performance auditors manage different roles and expectations. This study investigates the relationship between auditors' roles and their multiple audiences; and how this impacts on reputational risk.

THEORETICAL FRAMEWORK

Analysing the actions of auditors and their audiences requires a rich theory of process and practice which (unlike stakeholder theory) recognises that audiences may respond in ways that are unexpected or unforeseen by auditors. Ideas of framing and overflow supply such a theoretical framework which helps to explain how disputes emerge through alternative accounts of performance. Therefore ideas of framing and overflow are expected to enhance understanding of how reputational risk is generated.

Framing, as presented by Goffman (1974), is a process. To explain this process, Goffman (1974) proposed that human interaction can be divided into 'strips' bound by time and space. In his terminology, the boundaries of these strips are 'brackets,' which effectively separate the front-stage from the back-stage (Goffman, 1959). Activities occurring outside of the brackets are rendered invisible to the audience as though they were taking place on the back-stage of a theatre. Therefore, in the process of framing, activities outside the brackets are excluded from further analysis.

Goffman (1974) further suggested that the audience for any given strip of activity consciously or unconsciously seeks to 'frame' or understand what is happening in the strip. To achieve this understanding, audiences apply mental 'frameworks' or schema which have been constructed through their previous experience and knowledge. When a given strip is matched with a known framework, the activity becomes 'framed' and the audience then applies the rules associated with that particular framework to make sense of what it is observing. Audiences may also be guided by 'framing devices' or physical objects which help to clarify what is happening in a strip of activity.⁶

Goffman (1974: 45) used the term 'keying' to explain how one activity could be patterned on another activity and yet understood quite differently (Goffman, 1974: 43). To use the terminology of framing, a sporting contest can be keyed into an exercise program. The sport of boxing, for example, has been used as a model for spar-boxing which forms part of some exercise routines. Although spar-boxing involves many of the same movements and equipment as a boxing contest, the two activities are understood quite differently in terms of their motivations and consequences. Each keying produces an additional 'lamination' or layer of an activity and the one that is most apparent to the audience is known as the 'rim.' The rim indicates "what sort of status in the real world the activity has, whatever the complexity of the innermost lamination" (Goffman, 1974: 82). Therefore keying performs a crucial role in determining what the audience thinks is really going on.

As discussed above, some activities are relegated to the back-stage by bracketing them out of the frame. However, Goffman (1974) also realised that audiences 'disattend' or ignore certain

behaviour that occurs inside the frame. In particular, an audience may distinguish between 'in-frame' and 'out-of-frame' behaviour since some aspects of a strip are obviously not part of the main activity.⁷ Therefore the audience is capable of paying attention to the 'main track' in a strip and ignoring the 'disattend track'. Goffman (1974) acknowledged that disputes and misunderstandings may arise when members of the audience disagree over the level of emphasis that should be placed on certain aspects of an activity. For instance, an audience could disattend a certain component of the main track if it fails to recognise the importance of that component. Alternatively, an audience may pay undue attention to part of the 'disattend' track, which it was expected to ignore.

Consistent with Goffman (1974), Callon (1998) argued that exclusion is an integral aspect of the framing process. However, while Goffman (1974) focussed on what is included within a frame, Callon (1998) emphasised the significance of that which is excluded. He introduced the term 'overflows' to describe externalities in the framing process, correctly arguing that overflows are inherent components of any process rather than exceptions. Therefore a holistic analysis of framing must also consider overflows. In addition to dimensions of time and space, Callon (1998) emphasised that frames also demarcate which relationships are taken into account and which ones are ignored (Callon, 1998: 15). Therefore a frame can lock defined actors into certain roles, emphasise particular stakeholders and marginalise others.⁸ Callon (1998) further distinguished between 'hot overflows' and 'cold overflows.' Hot overflows represent disagreements that are actively contested and therefore likely to result in confrontation, frustration and protest. However, cold overflows relate to disagreements that have now been resolved and no longer generate intense debate.⁹

Framing and Overflow in the Accounting Literature

In the accounting literature, the concept of framing has been used to explain why reforms to public sector reporting produced outcomes that differed from officially stated aims (Christensen and Skaerbaek, 2007). In Australia, reformers envisaged that new social and environmental reports would enhance accountability to the public. However, the central agency coordinating the reforms keyed the frame from accountability to resource-allocation through unsubtle questions and reminders in its discussions with the reporting agency (Christensen and Skaerbaek, 2007: 120). In addition, the reporting agency deduced that the reform process had fundamental implications for the allocation of budgetary resources. Therefore instead of directing its reports towards the public, it focused on the central agency which controlled resource allocation, taking care to provide performance indicators which would justify expenditure levels and minimize budgetary reductions (Christensen and Skaerbaek, 2007: 120). As a result of the keying, reports contained different

information to that initially envisaged by reformers (Christensen and Skaerbaek, 2007) and failed to improve accountability to the public.

Reforms in Denmark involved a similar keying but the reporting agency was contained or failed to notice the keying. Therefore the outcomes of the Danish reforms differed from those in Australia. In Denmark, reporting agencies believed the reform process was genuinely about public accountability and attempted to meet this requirement by providing information which they thought might be useful to sections of the public, particularly environmentalists. However, both the Danish Ministry of Finance and the National Audit Office noted significant gaps in the department's disclosure of unit costs and concluded that the reporting agencies were inadequately accounting for their resource use. This led to budgetary reductions and left the reporting agencies feeling frustrated and misled about the true nature of the reforms.

Theorisation

Frame analysis provides the tools to explain the construction of alternative accounts of performance, which Power (2007) highlighted as critical to the generation of reputational risk. Alternative accounts can be understood as the application of different frames. Each frame places different emphasis on aspects of an activity and brackets some aspects out. However, aspects which an organisation ignores or disattends threaten to overflow the frame, giving rise to reputational risk. Stakeholders who feel strongly about the ignored aspects may actively highlight them by applying different frames to the organisation's performance. The media plays an important role in publicising and amplifying such overflows. In response, organisations may be forced to internalise overflows, essentially 're-framing' the activity to actively manage overflows.

Frame analysis provides the means to synthesise the various roles and applications of auditing identified in the literature on performance auditing and environmental auditing. First, frame analysis allows us to examine auditors' own understanding of their roles (Pollitt, 2003) as well as audiences' understanding of how audits serve them. Second, frame analysis allows us to move beyond the structuralist approach adopted in previous studies which sought to place auditors at some position on a continuum (Pollitt, 2003).¹⁰ Guided by frame analysis, this study differs from previous studies by embracing a more dynamic approach which acknowledges that auditors can simultaneously occupy multiple positions in relation to different audiences.

This study analyses framing and overflows, using the five frames summarised in Figure 1. These frames have been developed from the literature review and will form an integral part of the analysis

later in this paper. This thesis refers to the frames as: an assistance frame, an improvement frame, a public interest frame, a political frame and a risk management frame.

Figure 1 Frames used for analysis in this thesis

| Frame | Regards performance audits primarily as a tool for |
|-----------------|---|
| Assistance | Assisting Parliament in holding government accountable for management and delivery of programs. This incorporates Pollitt's (2003) public accounting role. |
| Improvement | Recommending improvements to administration and management in the public sector. This incorporates Pollitt's (2003) management consultant role and scientific researcher role. |
| Public Interest | Investigating issues which the public is interested in. This is primarily based on Basu et al. (1999). |
| Political | Evaluating government policies and acquiring political capital, by supporting or criticizing government. This is based on Johnsen et al. (2001), Roberts & Pollitt (1994) and Basu et al. (1999). |
| Risk Management | Proactively managing risks to program delivery. This is primarily based on Darnall et al. (2009) |

Note The labels for each frame have been selected by the author

This study examines how environmental performance audits are framed and how overflows arise through stakeholder reactions to audits. Based on the literature review (Gupta et al., 1994), the multiple audiences are represented by Parliament, audited agencies and the media. This paper argues that differences in framing between national audit offices and their multiple audiences may generate disputes when issues overflow the frame applied by auditors. If disputes are not resolved, they may give rise to reputational risk for audited agencies and the government in general.

Recognising the complimentary nature of framing and overflows, this paper is guided by the following research questions:

1. How is environmental performance auditing framed by auditors and various audiences?;
2. How do overflows from environmental performance auditing generate reputational risk to audited government agencies and the state?

DESIGN

The principal research site is the Australian National Audit Office (ANAO). ANAO is an ideal site for a study of reputational risk because it combines the public visibility of government with politically sensitive issues and several powerful audiences who are expected to respond to environmental audits and participate in related environmental debates. ANAO is also acknowledged as a pioneer in the field of performance auditing and has a well-established framework for such audits. In addition, ANAO audit reports are reviewed and cited by parliamentary committees as well

as being reported in the media. Given the use of audit reports in public discourse, a study of ANAO performance audits is expected to provide valuable insight to issues of framing and overflow by different audiences.

This paper focuses on two environmental performance audits conducted by ANAO, which are summarised in Appendices 1 and 2. The Home Insulation Program (HIP) and the Green Loans Program were selected because they were both highly visible and extremely controversial. Therefore they are particularly useful in understanding processes of reputational risk. Studying less controversial audits may have yielded different findings but would have been less helpful in answering the research questions. Furthermore, Power (2007) has previously emphasised that even isolated and non-representative events have the potential to generate reputational risk.

This paper is informed by document analysis and semi-structured interviews. Documents analysed included ANAO work programs¹¹ and audit reports, which contain audited agencies' official responses to audit findings and recommendations. Newspaper articles covering HIP and Green Loans Program were reviewed as well, especially those relating to the ANAO audits. This informed the selection of journalists to interview. Auditors, parliamentarians and parliamentary officials were also interviewed. The average duration of interviews was one hour. Interviews were recorded and subsequently transcribed.

FINDINGS

The first segment of this section analyses ANAO's objectives for performance auditing, which indicate that performance audits are framed in terms of assistance, improvement and public interest. The second segment focuses on strategic audit planning and examines the process of selecting audit topics, including HIP and Green Loans. It then discusses how auditors mobilise various frames during different stages of performance auditing. The third segment reviews report usage, including the way that audits are reported in the media.

ANAO's Performance Auditing Objectives

ANAO has two stated objectives for performance auditing (ANAO, 2012: 2), which frame its relationship with its two principal stakeholders, the Parliament and the public service. The first objective (Figure 2) describes ANAO's relationship with Parliament in terms of assurance. Assurance can be regarded as a form of assistance because it enables Parliament to maintain accountability over government agencies. Therefore ANAO's relationship with Parliament can be more fully characterized in terms of assistance, as indicated in its annual report.

The second objective frames ANAO’s relationship with government agencies in terms of promoting improvements to administration and management practice. Notably, the objective limits ANAO’s role to identifying and promoting better administration in the public sector but does not hold ANAO responsible for actual improvements. This acknowledges ANAO’s lack of formal power to enforce audit recommendations and impose sanctions for non-compliance. However ANAO increases the likelihood that audited agencies will implement audit recommendations through comprehensive discussions with agencies and on-going collaboration with JCPAA, as discussed in subsequent sections of this paper.

Figure 2 Objectives of Performance Auditing

| | |
|---|---|
| 1 | To provide Parliament with <i>assurance relating to the administration of Australian Government entities and programs</i> , including where these involve a Commonwealth partner. |
| 2 | To assist public sector managers by <i>identifying and promoting better administrative and management practices</i> . |

Source (ANAO, 2012: 2) Emphasis added

The two audit objectives refer specifically to Parliament and the public service but fail to stipulate the relative importance or ranking of these two stakeholders. However, ANAO’s Annual Report clarifies that ANAO considers Parliament to be its primary audience or “key client” (ANAO, 2011a: 44). This view is reiterated in ANAO’s Performance Audit Manual, which confirms that Parliament is the ANAO’s “primary client” (ANAO, 2009b). ANAO’s position closely resembles the UK National Audit Office, which functions primarily as a public accountant but also regards itself as a management consultant, providing useful advice to government departments (Pollitt, 2003).

Strategic Audit Planning

Under the Auditor-General Act, the Auditor-General has full authority to select performance audit topics. In addition, the literature suggests that audit offices are wary of politically controversial audit topics and seek to reduce the number of such audits (see for example Johnsen et al., 2001, Roberts and Pollitt, 1994). Therefore it is useful to examine the process of selecting audit topics and how contentious topics become included in (or excluded from) the audit work program. This process reflects application of different frames.

ANAO selects audit topics by: consulting stakeholders; developing an understanding of government agencies’ operations; and scanning the environment for potential risks. It then ranks selected topics according to criteria documented in the ANAO Work Program (ANAO, 2010), which are

summarised in Figure 3. When ANAO personnel were asked to describe the process of selecting audit topics, they highlighted the importance of parliamentary priorities and public interest as well as the significant role played by the media in making those issues explicit. These issues will now be discussed in more detail.

Figure 3 Documented Criteria for selecting Audit Topics

| Criteria | Details |
|---|---|
| Extent of Previous Audit & Review Coverage | As a general rule, <i>a higher ranking would be warranted where a Parliamentary Committee has requested a follow-up review</i> , a previous review indicated that a follow-up should occur or a previous review has identified significant issues. |
| Potential Benefits to Public Administration | <i>Including improvements in service delivery</i> , administrative and financial efficiency, accountability and transparency, and performance assessment |
| Financial Materiality | Based on an assessment of the total value of one or more of: annual expenditure, annual revenue and assets and liabilities in the proposed area of audit. <i>Values of \$1 billion or higher would be considered to have high financial materiality</i> |
| <i>Risks to Reputation & Service Delivery</i> | This requires consideration of the <i>visibility of the proposed audit topic</i> and is related to social and economic aspects of the activity and the <i>importance of its operations to Parliament and the public</i> . |
| Public Interest | Matters of public interest can be identified through Parliamentary proceedings and media coverage. Members of the public can also raise matters of interest directly with ANAO. |

Source ANAO Audit Work Program 2011-12 (emphasis added)

Mobilising an assistance frame

An assistance frame essentially regards performance audits as a tool for assuring Parliament that government programs are being managed efficiently and effectively. This frame is supported by the Auditor-General Act (Commonwealth of Australia, 1997) which declares the Auditor-General to be an independent officer of the Parliament and specifically requires him or her to consider Parliament's audit priorities when selecting audit topics. It is also reflected in ANAO's ranking criteria (Figure 3) which evaluate the importance of individual topics to the Parliament and consider issues for which Parliamentary Committees have requested follow-up reviews.

In the strategic planning stage, the assistance frame is mobilised through formal consultations with Parliament. Staff of ANAO and the Joint Committee on Parliamentary Accounts and Audit (JCPAA) explained that the Auditor-General sends JCPAA a copy of the draft work program for the next financial year, which JCPAA then circulates to other parliamentary committees for consultation. Based on the feedback and its own views, the JCPAA advises the Auditor-General of government programs for which Parliament requires particular assurance. The Auditor-General may

choose to incorporate these priorities into the final work program. Although the Auditor-General is not obliged to accept parliamentary suggestions, a former secretary of JCPAA explained why it is beneficial for ANAO to include some of them in the annual work program. In his experience, Parliament is more likely to take notice and ownership of audits which it requested in the first instance. This is critical since ANAO is not empowered to enforce audit recommendations.

Individual parliamentarians can also invoke an assistance frame if they require reassurance about a particular government program. The Auditor-General Act allows members of Parliament to directly request the Auditor-General to audit a specific program and they utilised this provision for both HIP and Green Loans. In relation to HIP, the Shadow Minister for Climate Change and Energy Efficiency Hon. Mr Greg Hunt made a number of requests for the program to be audited before the minister responsible subsequently made the same request. In the case of Green Loans, Senator Christine Milne of the Australian Greens wrote to the Auditor-General requesting an audit of the program.

Mobilising an improvement frame

An improvement frame regards performance auditing as a tool for recommending improvements to public sector administration and management. This frame is established through ANAO's stated objectives for performance auditing (Figure 2) and is also evident in the ranking criteria (Figure 3), which indicate that audits can contribute to improvements in service delivery, efficiency, performance assessment, accountability and transparency.

During the strategic planning stage, ANAO invokes an improvement frame by reviewing past audits and reviews to identify weaknesses which may require follow-up. In selecting audit topics, ANAO also incorporates themes from government initiatives and agendas targeting improvements across the Australian Public Service (APS).

ANAO managers also mobilise an improvement frame through reviews, discussions and meetings which help to shape their thinking and inform the selection of audit topics. Managers conduct these activities in the course of maintaining a watching-brief over government agencies. First, they identify significant issues through on-going discussions with government agencies and other stakeholders. Second, they supplement these discussions by reviewing documents like: annual reports, budget papers, portfolio budget statements, internal and external reviews, Parliamentary Hansard and media coverage. Third, they attend audit committee meetings to detect significant issues and challenges. The objective of these procedures is to identify areas that could potentially improve performance.

Mobilising a public interest frame

A public interest frame regards performance auditing primarily as a tool for investigating topics of public interest. This frame is evident in ANAO's ranking criteria (Figure 3) which consider the importance of audit topics to the public as well as benefits from improved service delivery. However, to mobilise a public interest frame during the strategic planning stage, ANAO does not consult the public directly. Instead, it obtains a window into public interest through parliamentary comment and media coverage. Audit directors at ANAO explained that they use the media to inform their thinking and obtain general background for performance audits. However they stressed that media coverage is "only one of the factors" considered and is not used in isolation. Reviewing media coverage is a critical aspect for mobilising a public interest frame because:

... sometimes the questions the media is asking are those which people are interested in. There'd be no point us conducting an audit in a particular area and not looking at the issues that people are interested in. That just doesn't serve any purpose. So that's why you'd look at media articles (emphasis added).

A journalist based in the Canberra Parliamentary Press Gallery, recounted that prior to the HIP and Green Loans audits, both programs had received considerable coverage in the media. With HIP, the media had reported several house fires and deaths.¹² With Green Loans, the media had reported budget blow-outs:¹³

... so there was ... if you like a context ... these reports hadn't emerged out of the ether, they'd basically been as the result of some of the stuff that had been in the media (Interview, emphasis added).

A former Commonwealth Auditor-General explained that public interest issues can over-ride financial materiality, even though ANAO cites financial materiality as a criterion for selecting audit topics. For example, with a budget of \$300 million,¹⁴ Green Loans did not rank highly in terms of financial materiality. However, because it had a significant impact on stakeholders, it was selected for audit ahead of the Sustainable Rural Water Use and Infrastructure Program, which had a budget of \$5.6 billion.

Previous studies suggest that national audit offices avoid contentious audit topics but a former state Auditor-General expressed a dissenting view. Recalling his term as an Auditor-General, he said:

We didn't have enough resources to waste on safe topics. We always had to look at contentious topics and I used to argue that if we didn't look at contentious topics it meant that we weren't doing our job (Interview, emphasis added).

In his view, using public interest as a criterion for selecting audit topics increases the likelihood of contentious audits. Similarly, in a lecture to the Australian Senate, the Commonwealth Auditor-General Ian McPhee argued that the ANAO does not evade auditing contentious topics. Highlighting ANAO's obligations to the public, he said:

I agree with Tony Harris, former Auditor-General of NSW, who said 'Auditors-General who avoid topics which fall within their mandate just because they are contentious *fail the community*' (McPhee 2011: 27 emphasis added).

However, such audits may be inherently risky for government because they have the potential to accentuate reputational risk.

Mobilising a risk management frame

ANAO mobilizes a risk management frame by scanning the APS operating environment to identify key risks and challenges to public administration (ANAO 2012b: 3-5). In performing this scan, ANAO is particularly concerned with how such risks and challenges may affect specific agencies and government as a whole. Environmental scanning enables ANAO to establish several key themes for performance auditing.

ANAO identified the environment as a key theme between 2007 and 2011, with COAG stressing the importance of environmental sustainability. ANAO also identified the global financial crisis (GFC) in 2009 and related economic stimulus measures in 2010. ANAO's selection of the Energy Efficient Homes Package (EEHP) as a potential audit topic reflects its own risk themes. EEHP was part of EEHP, which delivered home insulation to Australian households. EEHP had a strong chance of being selected in 2010 because it involved service delivery to Australian households, the environment and climate change and economic stimulus measures designed to counter the global financial crisis.

Figure 3 contains the ranking criteria which ANAO presents publicly. However ANAO also has a risk rating framework which it mobilises internally. Therefore the risk rating framework may not be visible to members of the public who lack access to ANAO's back-stage processes. The Performance Auditing Manual specifically describes how ANAO assesses the risk associated with an audit topic on the basis of complexity, sensitivity and materiality. This overlaps to some extent with ANAO's published ranking criteria, especially in terms of financial materiality, risks to reputation and service delivery and public interest.

Use of Audit Reports by Multiple Audiences

This segment examines how various audiences use and respond to ANAO's audits.

Audited agencies

Agencies' official responses to ANAO's audit comments for Green Loans are summarised in Figure 4. Although the DSEWPaC response was comparatively brief (172 words, 6 lines), it indicated the department's awareness that ANAO invokes an improvement frame. Based on the terminology of the departmental response, DSEWPaC clearly employed the same frame as ANAO. DSEWPaC

invoked an improvement frame by emphasising how program management had improved since the issues encountered with Green Loans. The response mentioned ‘improve’ or ‘improvement(s)’ five times and ‘change’ twice. To confirm that their response was more than mere rhetoric, DSEWPaC also outlined broad areas of improvement such as

... an executive governance framework; organisational reform; procurement arrangements; training; and internal audit arrangements (ANAO, 2011b, p137)

For further resonance, DSEWPaC emphasised that lessons learnt from the Green Loans Program would have long-term effects.

Figure 4 Audited Agencies’ Responses to Green Loans Audit Recommendations

| | DSEWPaC | DCCEE |
|--------------------------------|--|--|
| Word Count | 172 | 2,061 |
| Lines | 16 | 193 |
| Key Words (number of mentions) | Improvement(s) (4), Improve (1) Change (2) | Improvements (12), Improve(d) (12) Risk (9), Governance (6), Legacy Issues (4) |
| Themes | Improvement in Program Management, Lessons Learnt, Success of Energy Taskforce | Improvement in Program Management, Lessons Learnt, Changes in the department |

Source Green Loans Audit Report

DSEWPaC also invoked a risk management frame, focusing specifically on reputational risk. Their comments in this regard held little value for ANAO but were an important source of external validation for DSEWPaC. Therefore this frame was directed towards other readers as a way of managing the department’s reputation through stakeholder perceptions. In particular, the response accentuated positive comments in the audit report and generally ignored negative findings. For example, it drew attention to the success of the department’s Energy Efficiency Taskforce established in November 2009. Similarly, it reiterated ANAO’s acknowledgement of the changes DSEWPaC had already put in place. However, the department effectively distanced itself from past problems by not mentioning any failures or mistakes. It also reiterated ANAO’s acknowledgement of difficulties faced by the department in implementing the Green Loans Program.

Compared to DSEWPaC, DCCEE’s response was comparatively lengthy (2,061 words, 193 lines). Similar to DSEWPaC, DCCEE also invoked an improvement frame by emphasising improvements in program management, including 24 uses of ‘improve’ or ‘improvement.’ Likewise it stressed changes in the department based on lessons learnt and devoted considerable space to listing those improvements, with particular emphasis on improvements in risk management and governance.

The DCCEE response also invoked a risk management frame, again highlighting the positives. However, unlike DSEWPaC, it actively disputed some of the unfavourable audit findings. DCCEE used the term 'legacy issues' to distance itself from problems relating to administration of Green Loans by the former DEWHA. DCCEE was keen to remind readers that it was a different entity which had inherited problems created by others. Highlighting the positives, DCCEE used ANAO's comments to validate its own actions. The main issue of contention was the household assessment tool used in the Green Loans Program:

[DCCEE] *does not agree* that it has been necessary (or useful) to re-issue assessment reports subsequent to these improvements. The refinements that have occurred to the tool subsequent to the launch of the Program ... do not represent a fundamental change to the way the tool operates or generates recommendations. *The tool has been fit for purpose since the outset of the Program* and has generated reports that provide useful advice to households ... *Subsequent refinements* to the tool have improved its ease of use for assessors but *have not diminished the value of reports generated prior to the improvements being made.*(ANAO, 2011b: 141 *emphasis added*)

This response makes sense when interpreted through a risk management frame. For example, householders who had received assessments based on the original tool may have considered seeking financial compensation from DCCEE on the grounds that the assessment tool was not fit for purpose. However DCCEE's response to the audit report implied a denial of liability. The department also used its official response to make a claim that its product had always been fit for purpose and therefore it had not been negligent in that regard.

Parliament

The report of the Green Loans Audit was tabled in the Senate on 29 September 2010 and generated discussion for less than an hour. Of the three senators who spoke on the report, two (Senator Christine Milne of the Australian Greens and Senator Simon Birmingham of the Liberal Party) had previously been instrumental in establishing the Senate Inquiry into the Green Loans Program. Senator Milne had also written to the Auditor-General requesting a performance audit into the program. Therefore, Senator Milne and Senator Birmingham already had a strong personal interest in the issue. They also had a political agenda, backed by their responsibilities as party spokespersons on climate change. In a policy sense, the Greens' political position is pro-environment and this is clear in Senator Milne's speech. However, apart from Senator Feeney, who rose to defend the government, other senators did not comment on the report and the issues that it raised. This is not surprising because although audit reports are addressed to Parliament, parliamentarians delegate the review of audit reports to the Parliamentary Accounts Committee (PAC). During interviews, a former Auditor-General said:

... look at the number of reports that are placed in the pigeon holes at Parliament House every day. No one could read them all. You can't even read ministerial press announcements, there are so many of them, if you're a parliamentarian. So you do attend to your interests (Interview).

The Senate debate involved several frames but the dominant frame was political. Senator Milne commenced with an assistance frame, which challenged the Senate to make a decision based on the audit report tabled by the Auditor-General. Senator Milne asked “who is to be held responsible here?” and “who is going to be held to account?” for the audit findings. Using the audit findings, she assigned blame to government, saying:

... as the Auditor-General says, the majority of assessors have been trained by unregistered training providers. *That is the Commonwealth's fault, because it did not set down that there had to be registered providers training the assessors (Australian Senate Hansard, 29 September 2010).*

At this point, Senator Milne had invoked a political frame by criticising the government for poorly designing the Green Loans policy. She indicated how a loophole in the policy had led to significant problems. Furthermore, she asserted that those problems had reduced government's political capital among citizens:

Something has to be done about what I believe is a *large group of people in Australia* who were *seriously let down by the government of the day* with the Green Loans program (*Australian Senate Hansard, 29 September 2010*).

Picking up on Senator Milne's earlier questions about accountability, Senator Birmingham argued that ultimate responsibility for the failures identified in the audit report should rest with the minister responsible for the program. He justified this view on the basis that:

We live under a Westminster system—or so we are told—*so the buck is meant to stop with the minister*. Sadly, in this case it has not, and it is a disgrace that the former minister still sits around the cabinet table (*Australian Senate Hansard, 29 September 2010*).

This comment reminded the Senate that audit reports occupy a particular space in the context of the overall Parliamentary system. Senator Birmingham then cited thousands of people who had suffered through mismanagement of the Green Loans program. He used this background to continue in a political frame by naming the Labor party. He placed blame on the executive, saying:

The Green Loans program ... will *hang over their (government) heads* for the life of the parliament as many thousands of people continue to suffer as a direct result of the *Labor government's mismanagement* of this program (*Australian Senate Hansard, 29 September 2010*).

This was a particularly apt invocation of the political frame since Green Loans had been one of Labour's election promises in 2007.

Senator Milne and Senator Birmingham constructed an account of government performance, which blamed government for poorly designing and implementing the Green Loans policy. This account overflowed the improvement frame emphasised by ANAO and its attempts to maintain a positive, balanced approach to reporting. The politically-framed account accentuated reputational risk to government because it was likely to be reported in the media, as it was the next day. Therefore, speaking for the government, Senator Freaney found it necessary to engage in a political frame too. He suggested that the debate was about political point-scoring rather than the Green Loans program:

Since those *opposite* have sought to make some *political capital* out of this report and the deficiencies it has identified, I will on the way through make some *political points in return* (*Australian Senate Hansard, 29 September 2010*)

Although Senator Freaney's statement acknowledged deficiencies in the Green Loans Program, he defended the minister and the government, using sections of the report to support his arguments:

The opposition, perhaps naturally enough, have tried to *use this report to mount an attack on the government and, in particular, on the minister responsible for the program at the time, Minister Garrett*. That is to be expected. But, from a careful reading of the report, I do not think it provides the *ammunition that the senators opposite seem to think it does to attack the government and the minister* (*Australian Senate Hansard, 29 September 2010*).

Senators Birmingham and Freaney both invoked a political frame to blame each other's political party through selective use of portions in the report. Senator Freaney implied that it was natural or understandable for the opposition to use an audit report to criticise government. This could reflect the opposition's role in keeping government honest as well as the nature of parliamentary debate and point-scoring. Senator Freaney then downplayed the significance of the audit findings:

It should also be noted that the findings of the report *largely relate to historical issues with the program*. These findings are *not exactly news*. They were also covered in the report earlier this year by Ms Patricia Faulkner ... into the administration of the Green Loans program (*Australian Senate Hansard, 29 September 2010*).

This comment represented a further attempt to manage reputational risk from the opposition account of government performance. Highlighting the historical nature of the issues, Senator Freaney dismissed the audit findings as old news. The implication was that the matters had already been discussed publicly and the Senate should move on to a new topic. From a political perspective, government clearly preferred to minimise discussion of the audit report while the opposition had an interest in generating as much discussion as possible. Sitting behind these motivations is the knowledge that Parliamentary debate on such contentious issues will be reported in the media and thus broadcast to a much wider audience.

The Media

During interviews, ANAO directors stressed that ANAO does not proactively seek media attention, formally engage with the media or even consult with the media. A former Auditor-General implied that the media uses audit reports to meet its own agendas and also adopts a definite stance on contentious issues, saying:

... you know from the very start that if you come out with views that the media oppose, they will either *ignore it* or they will subject it to very careful scrutiny to try to *undermine it* (Interview, emphasis added).

This indicates that journalists filter audit reports and choose which aspects to publicise. Therefore media coverage is particularly interesting because it may not adopt the balanced reporting approach or improvement frame advocated by ANAO. This is not surprising since recommended improvements are more immediately relevant for the public service than the general public.

ANAO auditors commented that the media “sometimes” picks up audit reports, implying that many audit reports receive little media coverage. However both HIP and Green Loans received considerable coverage in the media. Therefore journalists were asked what determines how much media coverage an audit report receives. In particular, they were asked which audits get picked up and which ones are ignored or certainly receive less attention. In response, they emphasised matters of public interest and political significance.

When deciding which audits to report, journalists invoke a public interest frame. One media commentator said:

If it doesn't involve *previous public interest*, if it doesn't involve large resource allocation issues or topics like corruption and the like which are *inherently of public interest* then it could well be ignored and I think *most of the ANAO reports are ignored* because they are of that quality (Interview, emphasis added).

Another journalist agreed that the media tends to report audits that are of public interest (“You know ... is there a public interest in the subject matter?”). In his opinion, there was public interest in HIP but not necessarily for other audits. The journalist explained that public interest is related to service delivery. Service delivery issues are relevant to the public because these issues affect them directly. Service delivery, according to ANAO's risk rating framework, increases the public visibility of a program and the associated reputational risk. However the Commonwealth is less involved in service delivery than the states. Therefore ANAO audits are less likely than state audits to interest the public. This explanation provides insight to the public interest in Green Loans and HIP, which both involved service delivery to a wide cross-section of Australian households.

In addition to choosing which audits to report, the media also has discretion over the aspects of an individual audit which it highlights. In relation to HIP, some journalists felt there had been a lot of media focus on house fires:

... but you know when you strip away these house fires, they were not necessarily attributable to the home insulation program and there is another context. (HIP) was a *stimulus program and there is insufficient focus on the fact that this was a program rolled-out very quickly for a very particular reason* (Interview, emphasis added).

In their opinion, the media had emphasised a home insulation track and bracketed out economic stimulus aspects of HIP. They argued that:

If you want to assess how effective that program was, surely thinks like employment, impact on the economy should have a strong focus ... in the discussion around the program (Interview).

Although these arguments are reasonable, the media focus on home insulation makes sense because individual householders were probably less concerned with how HIP impacted the Australian economy and more interested in how it affected them financially, physically and emotionally, through personal tragedies such as fire and death. This demonstrates how the media keyed the HIP audit report back into a public interest frame, which is what had generated the initial calls for the audit.

Along with public interest, the media is also more likely to report on an audit that has political significance, such as a topic which the opposition has been raising. The political significance of an audit is related to public debate about the topic or program. Audits of HIP and Green Loans were politically significant because the programs had received a lot of coverage in the media as well as Parliament. HIP was a major news story because many people had insulation installed and some were actually killed while installing it.

In reporting the HIP and Green Loans audits, the media mirrored Parliamentary debate. For example, the following media account of the Green Loans Audit closely followed the Hansard account discussed earlier.

The opposition last night seized on the auditor's findings, saying the report was "*another damning indictment*" of Labor's management of environmental programs and that Mr Garrett should have been sacked *if ministerial accountability meant anything at all*. But (Mr. Combet) *defended Mr. Garrett, pointing to the report's finding* that he "was not served well by his department" (Berkovic 2010b).

Parliamentarians are aware that the media follows Parliamentary debate of issues with public interest and political significance. Therefore, to some extent, their contribution to Parliamentary debate is staged for the media in the knowledge that it is likely to receive newspaper coverage the following day. Interestingly, many of the emotive words used in media reports never appear in

ANAO's actual audit reports. The contrast in vocabulary is stark when compared to ANAO's audit reports which are written in a neutral, scientific tone. Although media reporting highlights failures and could be seen as sensationalising the issues, it does provide a valuable counter-point to ANAO's approach.

DISCUSSION

This section uses the findings presented above to explain how frames and overflows from the performance auditing process increase or reduce reputational risk to audited agencies and the state.

Framing by ANAO and Government Agencies

In relating to government agencies, ANAO primarily invokes an improvement frame. In this context, ANAO frames environmental performance auditing in terms of improvements to administration and management. The improvement frame is established through ANAO's stated outcome and objectives for performance auditing. During audit planning, ANAO mobilises an improvement frame by maintaining a watching-brief over each government portfolio and regularly consulting departmental stakeholders. These activities are designed to identify areas in which agencies could improve their performance. After an audit, ANAO continues to invoke an improvement frame by conducting follow-up audits and follow-on audits which examine how improvements have been translated to other programs. Finally ANAO uses audit findings to prepare better practice guides which extend lessons learnt from individual audits to the entire Australian Public Service.

By the same token, audited agencies invoke an improvement frame in their official responses to ANAO's audit comments. For both HIP and Green Loans, agencies' responses closely echoed ANAO's comments. In particular, DCCEE and DSEWPaC emphasised improvements and change by using those words in their official responses and citing examples of actual changes within their respective agencies. In addition to the improvement frame, agencies also invoke a risk management frame in their official responses. This does not mean that agencies resist ANAO's improvement frame. However, agencies recognise that audit reports are public documents which will be read and interpreted by a broad range of audiences through a political frame and a public interest frame. Therefore they use their official responses to extend sympathy to injured parties while also denying liability, seeking empathy for themselves and deflecting blame to other parties. In their responses, agencies introduce material which Parliamentarians, especially government ministers, can reference during subsequent Parliamentary debates.

Audits like HIP and Green Loans may effectively close public debate on controversial topics because of ANAO's emphasis on an improvement frame. To a certain extent, this emphasis may be unsurprising since performance audits focus on improving efficiency and effectiveness. However, some audiences may be surprised to know that ANAO regards performance audits more as an opportunity to learn from mistakes and less about punitive measures or a 'gotcha' attitude. This has important implications for reputational risk to government. Agencies have significant opportunities to make changes in their programs if weaknesses are identified early in the audit. This reduces the number of critical audit findings and the related reputational risk. ANAO auditors expressed the view that they would prefer to see actual changes in a program, even if that reduced the number of audit recommendations.

Framing by ANAO, Parliament and JCPAA

In relating to Parliament, ANAO primarily invokes an assistance frame. In this context, ANAO frames environmental performance audits in terms of assisting Parliament to monitor performance in the public service and hold public service agencies accountable for their performance. This is consistent with the Auditor-General's constitutional role as an independent officer of the Parliament and with ANAO's stated objectives for performance auditing. ANAO mobilises an assistance frame through a formal consultation process which enables the JCPAA to advise ANAO of parliamentary priorities.

ANAO performs an advisory role to Parliament but it cannot control the frame(s) invoked by individual Parliamentarians and political parties when utilising the information contained in its audit reports. In Parliamentary debate over HIP and Green Loans, politicians invoked a political frame and a public interest frame, which overflowed the improvement frame emphasised by ANAO. The opposition, in particular, criticised government for failures in the programs and argued that the minister responsible should be removed from cabinet. This demonstrates how alternative accounts of performance are constructed by selectively disattending issues that do not fit a political agenda. To justify a change in government policy and gain political capital, the opposition has a motivation to highlight failures and assign blame, which amplifies reputational risk. On the other hand, government is motivated to protect its reputation by highlighting successes, emphasising mitigating actions and deflecting blame. As an independent party, ANAO is not concerned about policies per se, but with how to obtain the best results from policies, learn from mistakes and improve future service delivery.

Unlike individual Parliamentarians and political parties, the JCPAA tends to interpret ANAO reports through an improvement frame. Using the JCPAA as an intermediary effectively reduces reputational risk from performance audits because the committee is unlikely to key audit findings into a political frame. First, this reflects the constitutional role of JCPAA, which is to review ANAO's audit reports and support the implementation of audit recommendations. The JCPAA holds the public service accountable and consequently focuses on the audited agencies rather than executive government. Second, the JCPAA is dominated by government members and less likely to invoke a political frame than Senate inquiries which are dominated by members of the opposition. Third, the JCPAA is bi-partisan and looks for common ground among the political parties represented on the committee. This claim is supported by JCPAA's strong record of unanimous reports, unlike the Senate inquiries into Green Loans and EEHP which adopted political frames and resulted in dissenting reports.

Framing by ANAO and the Media

ANAO also invokes a public interest frame which is designed to recognise and incorporate views of the general public. However ANAO has little direct contact with the general public. Therefore it mobilises a public interest frame by using the media and Parliament to identify issues of concern to the general public. Issues that create strong views and opinions among the public are more likely to affect government's reputation, whether favourably or unfavourably. For ANAO to ignore such public interest would be regarded as shirking its responsibility. However, explicitly addressing public interest issues is problematic since it requires ANAO to take-on contentious audits, which can create conflict with the state (see for example English, 2003).

The media plays an important role in determining what the public understands and believes about performance auditing because few people outside of the public service may read audit reports. However, media accounts fail to present audits in terms of improvements and learning. Instead, the media re-key audit reports into a public interest frame, which is more concerned with how government programs affect citizens. Therefore media accounts of HIP and Green Loans focused on issues of safety, employment and justice rather than administration. This may have provided the general public with the answers they were interested in but overflowed the improvement frame used in ANAO's audit reports. Journalists further amplify reputational risk by using emotive language, which contrasts with the bland, bureaucratic language of ANAO audit reports. Selective reporting of audit issues using emotive language provides further evidence of how alternative accounts of performance can be developed from the same audit. By highlighting issues of public and Parliamentary interest, the media provides a useful counter-view to the more positive tone adopted

by ANAO. In light of media accounts, the view that audit reports can speak for themselves is questionable.

Journalists also reflect political debate, which is implicitly connected with reputational risk because it highlights failures and assigns blame. Since the media emphasises public interest and political frames, it inevitably focuses on more contentious topics and issues, while disattending more mundane ones. Therefore ANAO reports which do not deal with issues of public or political interest are unlikely to receive media coverage. However, ANAO may not be unduly concerned about lack of media coverage since its audit reports appear to be directed towards the public service and Parliament.

Conclusion

First, this study extends the performance auditing literature by concluding that the roles played by performance auditors are more fluid and complex than the structuralist classifications employed in earlier studies (Pollitt, 2003). While Pollitt (2003) correctly identified that national audit offices perform multiple roles within the same jurisdiction, this study enhances understanding of the practice by showing that auditors can relate to different audiences through different frames. In other words, auditors contextualise their relationship with each broad group of constituents or stakeholders, which Basu (1999) and Gupta (1994) previously identified as Parliament, audited agencies, the media and the general public. The fluidity of this relationship enables ANAO to relate to the public service through an improvement frame while simultaneously relating to the Parliament through an assistance frame and accommodating views of the general public through a public interest frame.

Second, this study demonstrates how the frame(s) emphasised by various audiences underscore their role in a parliamentary democracy. Policy-making is the prerogative of Parliament (or in cases like HIP, the executive) and cannot be questioned by ANAO. However, as an independent officer of the Parliament, the Auditor-General's reports empower members of Parliament with information which they can use to hold the government accountable. Parliamentarians must decide for themselves how to use the reports. Parliamentarians can use the audit report to review the performance of the public service. The opposition plays an important role in questioning the executive and keeping it on its toes, particularly when audit findings indicate that policy objectives have not been achieved. Therefore it can adopt a political frame which uses the reports to critique the performance of the executive. As elected representatives of the people, Parliamentarians are also obliged to employ a public interest frame. Therefore they can be expected to raise issues which are of interest to their own constituents or the general electorate.

Third, the media plays an important role in linking the public with the Parliament and the ANAO. On the one hand, the media captures public sentiment and brings matters of public interest to the attention of ANAO and Parliament. For example, the public was particularly interested in both HIP and Green Loans. On the other hand, the media disseminates audit findings and Parliamentary debate to the public. However, the media is more likely to focus on issues which have inherent public interest or political significance. In this capacity, the media provides an important balance to ANAO reports which tend to be written in a positive and objective tone and may be difficult for readers to decipher. Media independence is critical since each political party is likely to advocate and advance its own interests.

Finally, this study finds that ANAO's performance audits in-effect manage reputational risk to the state, irrespective of which political party is in government. While previous studies identified ANAO audits as a potential source of reputational risk to government, this study finds that ANAO also serves as a risk manager. ANAO does this by proactively scanning the environment to identify potential risks, particularly those which relate to service delivery. Service delivery can have a strong impact on reputational risk, given the ability of consumers to reverse the burden of proof and blame service providers. These issues are highly visible to the general public and therefore more likely to affect the reputation of the service deliver agency and the executive. By reviewing these issues early in the life of a program, ANAO audits enable agencies to address small problems before they crystallise into larger ones with commensurate reputational risk.

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² This spelling of program is adopted throughout the paper, following conventions of the Australian Commonwealth Government and the ANAO.

³ These areas of auditing were considered quite new in the 1980s and 1990s (see for example Power, 2003). Although they are now more established, they remain comparatively "new" and less widespread than traditional financial audits.

⁴ The International Organisation of Supreme Audit Institutions (INTOSAI) is an umbrella body that includes external government audit bodies from 194 countries. INTOSAI considers environmental audits to include financial, compliance and performance audits that evaluate and give opinions on environment-related matters. The Sixth INTOSAI Survey on Environmental Auditing reported that during the three years from 2007 to 2009, national audit offices conducted a total of 640 environmental performance audits as well as 622 compliance audits and 383 financial audits INTOSAI 2010. The Sixth Survey on Environmental Auditing. INTOSAI Working Group on Environmental Auditing.

⁵ For example, the UK National Audit Office (NAO) stressed its role as a public accountant but also exhibited characteristics of management consultants.

⁶ These devices could include the curtain in a theatre as well as signs, such as those for bus stops.

⁷ For instance, when a public speaker clears his or her throat or takes a sip of water, the audience generally understands that those acts are not part of the speech proper.

⁸ This idea also exists in (managerial) stakeholder theory

⁹ For example, many firms with large social and environmental footprints now acknowledge their corporate social responsibility and disclose it in their external reporting, either as a stand-alone report or within the corporate annual report. Issues that firms may previously have omitted from their reports are now positioned within the reports.

¹⁰ Other studies allowed auditors to change position over time (Guthrie and Parker, 1999).

¹¹ This document lists about 150 potential audit topics selected by ANAO, of which about 50 will result in actual audits per year.

¹² A search of the FACTIVE database identified 93 newspaper articles in February 2010 which referred to deaths in the context of HIP.

¹³ A search of the FACTIVE database identified 29 newspaper articles in February 2010 which referred to various aspects associated with the Green Loans Program.

¹⁴ Unless otherwise stated, all amounts are expressed in Australian Dollars (AUD).

LIST OF ACRONYMS

| | |
|----------------|--|
| ALP | Australian Labor Party |
| ANAO | Australian National Audit Office |
| DCCEE | Department of Climate Change and Energy Efficiency |
| EEHP | Energy Efficient Homes Package |
| EMS | Environmental Management System |
| FSG | Financial Statement Assurance Group |
| HIP | Home Insulation Program Initially, Homeowner Insulation Program |
| INTOSAI | International Organisation of Supreme Audit Institutions |
| JCPAA | Joint Committee on Parliamentary Accounts and Audit |
| PAC | Parliamentary Accounts Committee |
| SAI | Supreme Audit Institution |
| SSCEC | Senate Select Committee on the Environment and Communications |

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APPENDIX 1

Home Insulation Program (HIP)

The Home Insulation Program (HIP) was one of several economic stimulus measures introduced by the Commonwealth Government to combat the 2008 global financial crisis. HIP was part of a larger program, the Energy Efficient Homes Package (EEHP), which had both environmental and economic objectives. The environmental objective of EEHP was to improve the energy efficiency of Australian homes and reduce greenhouse gas emissions by installing home insulation while the economic objectives were to generate economic stimulus and employment in the construction industry (ANAO, 2011c).

EEHP had a total budget of \$3.9 billion, of which \$2.8 billion was allocated to HIP; this amount was to be spent over two and a half years. However, in July 2009, the HIP budget was revised downwards to \$2.45 billion. Then in February 2010, HIP was terminated prematurely because of on-going concerns about safety and compliance (ANAO, 2011c). In particular, four workers had died while installing home insulation. In the ANAO Work Program for 2010, EEHP was listed as one of five potential audit topics within the Environmental portfolio (ANAO, 2009a).

From the commencement of HIP, various stakeholders raised concerns about the program's delivery with the Auditor-General. This included the opposition, who were particularly concerned about safety issues and fraudulent use of public funds. In March 2010, the Auditor-General announced the HIP audit, following several requests from the opposition and a later submission from cabinet (ANAO, 2011c).

APPENDIX 2

Green Loans Program

Unlike HIP, the Green Loans Program reflected a promise made by the Australian Labor Party (ALP) during the 2007 Federal Election campaign. Following its election victory, the ALP government allocated \$300 million to fund the Green Loans Program in its 2009 Budget (ANAO, 2011b). The main environmental objective of the program was to reduce greenhouse gas emissions. The other objectives were to: encourage improved energy and water efficiency in existing homes; advise households how to reduce their environmental impact; and provide households with financial assistance to invest in efficient technology (ANAO, 2011b).

The Green Loans Program was launched in July 2009 and was scheduled to run until 2013 or until available funding was exhausted, whichever came first. Eligible householders could apply to a participating financial institution for an interest-free green loan of up to \$10,000 to fund the purchase and installation of eligible items recommended in the assessment report. Following revisions in the 2010 Budget, the program was expected to fund up to 360,000 free home assessments and interest rate subsidies for up to 75,000 green loans (ANAO, 2011b).

From late January 2010, the program attracted increased media attention and questions were raised about the effectiveness of the program's administration, the ability of assessors to gain work under the program and the quality of assessments. In response to these concerns and other implementation issues, the Environment Minister announced a number of changes intended to boost the effectiveness and sustainability of the program.

In February 2010 the Auditor-General announced an audit of the program, following written requests by Senator Christine Milne of the Australian Greens (ANAO, 2011b). In March 2010, the program was transferred to the newly-established Department of Climate Change and Energy Efficiency (DCCEE). In July 2010, government announced that the program would be phased out (ANAO, 2011b).