

Meeting the challenges of

corporate governance

Effective corporate governance is an essential part of the modern corporate entity. Public and private sector corporate organisations will ultimately be judged by how well they direct, control and are held to account for delivering their corporate objectives.

Corporate failures during the 1980s and early 1990s, in particular, brought to the attention of the public the need for efficient, effective and responsible corporate governance.

The focus on corporate governance is not just driven by the corporate failures of the past but also by the corporate challenges of the future. Corporations, both public and private, face challenges relating to globalisation, technological change and sustainable development.

Commonwealth government business enterprises (GBEs) provide a range of services to the Australian community including communications, transport, employment and health services. In 1998-99, GBEs generated revenues of nearly \$25 billion, provided dividends of \$4.5 billion, and controlled assets of some \$40 billion. Given that GBEs are publicly controlled entities, the Parliament has a continuing interest in their governance, performance and accountability.

In 1997, the Commonwealth Government introduced new governance arrangements for its GBEs. These arrangements help form the framework for the accountability of GBEs and set out key responsibilities for both boards and Ministers. The broad

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The key themes raised by industry groups focus on the inadequacy of design specifications through to disagreements regarding fair allocation of risk. Master Builders Australia claims that "poor design specifications lead to cost overruns, quality issues and disputes". The Canberra Business Council claims that it "is aware of instances where the Commonwealth is perceived to have attempted to transfer excessive risk to the private sector which can cause the preferred tenderer to walk away from contract negotiations or place a premium on the bid."

The Institution of Engineers Australia claims that deficiencies in contract management can be linked to recent planning disasters. The Institute stated:

The fundamental importance of having technical expertise was highlighted in the analysis of three recent disasters: the Royal Canberra Hospital implosion, HMAS Westralia ship fire and ESSO Longford explosion. Inadequate technical and contractual expertise was also cited in

objective of the recent inquiry into corporate governance by the Joint Committee of Public Accounts and Audit, chaired by Mr Bob Charles, MP, was to assess the appropriateness and effectiveness of these arrangements.

On 16 February 2000, the Joint Committee tabled its report in Parliament. A key recommendation in the report is that all portfolio Ministers should be removed from their current GBE shareholder responsibilities, but remain as the responsible Minister under GBEs' enabling legislation. The Joint Committee also has recommended that the Minister for Finance and Administration should:

- review the applicability of administrative law to current and future GBEs on a case by case basis;
- amend the 1997 Governance Arrangements to include a section that all Ministerial directions to GBE boards should be in writing and tabled in both Houses of Parliament within 15 sitting days;
- amend the 1997 Governance Arrangements to include a requirement that GBE boards ensure that there are appropriate and effective induction, education and training programs offered to new and existing board directors;
- amend the 1997 Governance Arrangements to include a section requiring confidential board and director performance appraisal; and
- develop draft guidelines for the scrutiny by Parliamentary Committees of commercially confidential issues relating to GBEs.

For more information, contact the Inquiry Secretary, Mr Stephen Boyd on telephone (02) 6277 2336.

association with Collins class submarines. From a professional engineering and public sector contracting perspective, there were a number of common factors which contributed to the disasters. These included government contracting staff lacking the necessary technical and contractual expertise to manage engineering contracts, and government staff not adequately assessing contractors' and sub-contractors' engineering competencies.

The JCPAA will examine these and other matters in a series of public hearings that commenced on 22 February 2000 and are proceeding through March.

Further information about the inquiry can be obtained from the committee's web site at: <http://www.aph.gov.au/house/committee/jpaa/index.htm> or from the Inquiry Secretary, Stephen Boyd at email stephen.boyd.reps@aph.gov.au or (02) 6277 2336.