Australian Society of Certified Practising Accountants Annual Research Lecture, Canberra

Some Thoughts about the Roles, Responsibilities and Future Scope of Auditors-General

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Background

This evening you are getting two for the price of one. However, my partner is certainly not in any sense half price. Nevertheless, I have to confess that we were the last hope in a long line of possible candidates for this year’s research lecture. In fact the Committee were perilously close to abandoning the lecture for the first time as possible candidates progressively declined. That was the last thing Professor Alan Barton from the Australian National University, Chair of the Committee, wanted. I therefore have two votes of thanks to make. One is to John Taylor, the former Auditor-General who requires no introduction. And the other is to the editors, particularly Dr John Wanna, of the Australian Journal of Public Administration.

John and I were asked to prepare articles dealing with the roles and responsibilities of Auditors-General for the September edition of the Journal. Particular questions were posed to John. I was given a less precise mandate. Latterly, we each exchanged our efforts. It occurred to me that such comments could be of interest in any debate about replacement bills for the Audit Act 1901, particularly if the timing were right. As it turned out, publication of the articles has been delayed to the December edition. A possible opportunity emerged as it then appeared the Government would introduce the new Auditor-General Bill at about this time.

I contacted John Taylor who, very graciously and enthusiastically, consented to the use of his article as a basis for the commentary on the research lecture which the Committee had agreed could be an expanded version of my effort. That arranged, I then contacted John Wanna who was equally forthcoming in agreeing to the use of the articles for this purpose, with appropriate attribution. In part, this reflected not only the topical nature of the subject but also the different audiences likely to be involved. I am grateful to both colleagues for their cooperation. Alan Barton was also very pleased.

Putting The Debate Into Perspective

Essentially the lecture tonight is about the past and possible future roles of Auditors-General, not surprisingly oriented mainly towards the Federal Government environment, and the important impact of the perceptions and reality of independence in performing those roles. My alternative title for the lecture is ‘The independence of Auditors-General on a scale of one-to-ten’. The complementary issue, in my view, is the nature and level of accountability that goes with such independence. Pragmatically it would be difficult to argue that there should be more than a direct one to one relationship even if the ‘natural’ disposition were to be absolutely scrupulous in being, and being seen to be, independent. Nevertheless more is always
expected of all of us. The analogy that many public servants would relate to is the extent of management flexibility that goes with devolution of authority.

Mere mortals might be inclined to allow for mitigating circumstances, particularly if they were outside one’s control. This does not mean settling for a degree of independence that simply gives comfort to those involved at any particular point in time. It should not be a moveable feast. Indeed, any framework of independence should be able to stand the test of time. That is why I have particularly welcomed the debate that has been occurring in many jurisdictions over recent years and not least in the Commonwealth arena as we have inched towards a replacement for the Audit Act 1901.

Independence of Auditors-General is not an end in itself. It is the main means by which Parliament can be assisted to ensure accountability of the Government (that is, the executive and bureaucracy) for spending of public money. However, such independence also creates an important accountability obligation on Auditors-General for their own performance, including that of their Offices. It is essential to have the capacity that independence can provide if an Auditor-General is to be really effective. By the same token, that effectiveness can largely depend on the ways in which the independence provided is actually employed or, perhaps in some situations, allowed to be employed. Nevertheless, the ultimate test has to be the results that are achieved and judgements made accordingly including, may I suggest, by interested commentators and analysts. Such a test should help sort out the fact and the fiction.

It seems that unless an Auditor-General is constantly demanding independence, particularly from the executive and the bureaucracy, the perception is one of ineffectiveness, ineptitude, being a captive of the system or a fellow traveller of executive government. As I am sure John Taylor and other Auditors-General have found, the key to success is often knowing just what, when and where particular battles have to be fought and where one might consider ‘losing’ in order to win the real war. The important realisation in the present situation is that we are not attempting to settle the issue of independence solely on the basis of the present environment but in the context of the reasonably foreseeable future which takes us at least 10 years out.

We need robust legislation that can largely stand the test of time but perhaps not for most of the next century as the current legislation apparently has this century. I have therefore endeavoured not to be preoccupied with the circumstances and particular focuses of today. Nevertheless, there is no real independence where there is denial or restriction of function, relevance, access, information or resources. As I have just suggested, qualified independence means limited effectiveness and is likely to result in qualified accountability. Most would agree this is not a desirable outcome.
I will be referring several times this evening to the report that was produced recently by the Joint Committee of Public Accounts (JCPA) entitled ‘Guarding the Independence of the Auditor-General’. The report noted that ‘the independence of the Auditor-General is fundamental to public accountability’ (JCPA 1996 : 7). Another comment in that report is also particularly apt at the present time:

‘...the office must be held by an appointee who has the confidence and respect of the Parliament, and who cannot be personally penalised for exposing any shortcomings in the management of Executive Departments or agencies.’ (JCPA 1996 : 11)

It is worthwhile reminding ourselves of what has happened since the JCPA produced its landmark report, ‘The Auditor-General - Ally of the People and Parliament’ in 1989 in which, inter alia, the Committee recommended repeal of the Audit Act 1901 and its replacement by two new laws with one specifically related to audit activities. A potted history of events since that time is included as an endnote. There are many who are hoping that we will see the (three) replacements for the Audit Act 1901 in situ from 1 July 1997.

Roles and Responsibilities

A Question of Independence

Any discussion about Auditors-General essentially boils down to two themes — independence and accountability. These themes are the major focus of this address. The first part largely deals with independence issues and the second with accountability. The following comments by the now Commonwealth Attorney-General (Williams 1995: 353–4) are apposite:

‘Under the Westminster system of government, the Auditor-General’s position is considered the crucial [my emphasis] link in the process of accountability to the taxpayer on the utilisation of funding, and ... it is vital that Auditors-General not only be independent but also that they be seen to be independent.’

To a considerable extent these sentiments are backed up by legislation in virtually all of the countries mentioned earlier. Under the Westminster system the predominant emphasis is on the Auditor-General's relationship to Parliament. That has been described as follows:
‘The Auditor-General is an officer whose purpose is to provide credible assurance to Parliament on governmental performance. Credible assurance can only be provided by ensuring the Audit Office is independent and competent.’ (Office of the Controller and Auditor-General) (OCAG 1995: 1)

The latter part of that quote emphasises what should be the obvious interdependence of the Auditor-General and the audit office. Acceptance of such a relationship has important implications for the future conduct of the role of Auditor-General. I will therefore refer to them interchangeably unless making a specific distinction.

While there have long been debates about the relative responsibilities of public servants to ministers (the executive) and to the Parliament, there seems to be general acceptance that the audit office reports to the parliament on its audit activity as its principal client, to use the New Public Management terminology. On the other hand, there has been some concern to remove any doubt about the real as distinct from the symbolic independence of Auditors-General at the federal level in Australia both in debates about a proposed Auditor-General Act (as part of a replacement of the Audit Act 1901) and in a pre-election speech by the current prime minister as follows (Howard 1995: 23):

‘We will establish a completely independent Auditor-General. ... Under the Coalition the Auditor-General will be an officer of the Parliament. He will be funded from the Appropriation for the Parliament.’

It remains an open question at this point in time as to what being an ‘Officer of the Parliament’ means in practice, particularly in relation to the audit office itself. The JCPA has suggested that any declaration of the Auditor-General as an ‘Independent Officer of the Parliament’ in the new legislation should be accompanied by a statement that:

‘... the title has no legal consequences other than those explicitly provided for in the legislation and that the title takes its meaning from the Auditor-General Bill and not from other Commonwealth legislation.’ (JCPA 1996 : 55)

The Committee accepted that the existing definition of the term in the Public Service Act could not be applied to the Auditor-General (1996 : 47).
While all jurisdictions make provision for Auditors-General to be free from interference in the performance of their auditing responsibilities, most do not include the Auditor-General as part of the legislature. An exception is the United Kingdom, where the *National Audit Act 1983* states that: ‘The Comptroller and Auditor General shall by virtue of his Office be an Officer of the House of Commons’. However, perhaps more importantly, the Act provides the Comptroller and Auditor General, Sir John Bourn, with ‘complete discretion in the discharge of his functions’. Pragmatically speaking, as the auditing standards of the International Organisation of Supreme Audit Institutions (INTOSAI) encompassing about 180 National Audit Organisations, indicate ‘Whatever the form of government, the need for independence and objectivity is vital’. (INTOSAI 1995 : 24).

It seems to me that one cannot effectively deal with the issue of independence unless one considers the framework which creates the Auditor-General’s role as a whole. For example, the appointment and dismissal processes, term and conditions of appointment, the nature of the audit office and its relationship to the Auditor-General and the audit mandate, incorporating power to access information including cabinet documents all impact on the extent of independence which exists in practice. The JCPA indicated that such elements ‘can be enshrined in legislation’ (JCPA 1996 : 59). It is vital that the Auditor-General not only be independent but is also seen to be independent. This is a theme I will be stressing in different ways and often in this address.

There would be general acceptance that dependence for funding does potentially, if not actually, impact on the independence issue. In this connection, there have been questions about control by the executive through the estimates process in negotiations with Finance or Treasury agencies. No auditor can, in effect, write his or her own cheques. This has become quite evident in the private sector to the point where there is serious questioning about audit fees and the credibility of the audit processes and outcomes coupled with the assurance provided.

The critical link in the accountability chain between the public sector auditor and the Parliament has been recognised in Western Australia:

‘The Parliament therefore has a special responsibility to ensure both that the independent and the effective resourcing of the Auditor-General are secured.’ (Warccagom 1992).

A positive and more recent development with implications for independence has been the growing support to legislate for involvement by the Parliament
in the appointment of an Auditor-General going beyond mere consultation. The JCPA considers that the Parliament should have the right to approve such an appointment with the process being more than consultative and not unwieldy (JCPA 1996 : 12). Significant involvement by Parliament in the process at least seems to strengthen the perception of independence. There also seems to be general support for a fixed term, non-renewable appointment (as does the JCPA, 1996 : 17).

What makes such an appointment different from that of other statutory officers, for example, the Ombudsman or indeed High Court judges? Why should their budget appropriation arrangements be any different, not forgetting those of the Parliament itself? Should there be standing appropriations for such functions with periodic external review to ensure adequate accountability? Would it be possible and practical to rely on an agreed set of performance measures for that purpose? Should the budget be settled between the Auditor-General and any Audit Committee taking into account the government’s budget framework with a recommendation going forward to the government or Parliament reflecting any discussions, as necessary, with Finance or Treasury representatives? Dual responsibilities can be confusing such as now exist at the federal level in relation to both the Prime Minister and Minister of Finance.

The main point of these kinds of questions is to illustrate there are a number of the perceived ‘independence’ and ‘accountability’ issues for the Auditor-General and his or her relationship to the Parliament and the executive. Not the least important in this array of issues would be the requirement to assist the Parliament in its ‘scrutiny’ role. However, it would be equally important that the Parliament not have a power of direction over the Auditor-General. The JCPA considered it essential to:

‘... put beyond doubt the Auditor-General’s freedom from direction by the Executive or the Parliament in the performance of audit functions.’ (JCPA 1996 : 61)

The INTOSAI Auditing Standards also indicate that:

‘It is important for the independence of the SAI that there be no power of direction by the executive in relation to the SAI’s performance of its mandate.’ (INTOSAI 1995 : 27).

Nor does it seem desirable to attempt to deal with broader constitutional issues bearing on the Senate’s relationship to the executive to be resolved within legislation dealing with the Auditor-General. Relationships between and across the Parliament, executive and Auditor-General should be
transparent and as simple and direct as possible. They should not be subject to other agendas, important though they may be, which would simply complicate the relationships. The JCPA would want the Audit Committee to have the right to receive a copy of any information suppressed by the executive under legislative discretion or an unabridged copy of the audit report (1996 : 27). Perhaps as the then Professor Paul Finn suggested, we should be looking at the role of the Auditor-General as ‘facilitating the practice of responsible Government’ rather than as a ‘servant of Parliament’ (Finn 1995).

A recent interesting initiative, aimed at bringing about a closer relationship between an Auditor-General and a Parliament, has been taken in Western Australia. A Statement of Understanding has been agreed between Des Pearson (Auditor-General) and the Public Accounts and Expenditure Review Committee of the Western Australian Parliament (PAERC). The Agreement is basically about improving communication and coordination between the two organisations. The major aim is to enhance the accountability mechanisms of the Parliament. Among other things, as part of its obligations the PAERC will encourage and support the ‘true’ independence of the Auditor-General and will work to ‘ensure that this independence is not compromised’ (PAERC 1996 : 1).

A Comprehensive Mandate

The functions, duties and powers of an Auditor-General are those provided by the Parliament and can be taken to reflect the nature and breadth of the latter’s interests in the activities of government. In this way, the Parliament establishes the basic authority and access rights of the office to required information. The watch-dog is usually not given carte blanche. The issue of mandate is therefore more about the length and scope of the tether. There does seem to be more scope under the proposed new legislation but will the tether be too constraining. The JCPA recommended that the Auditor-General Bill should provide that:

‘The Auditor-General has the right to report to Parliament on any matter at any time as the Auditor-General sees fit.’ (JCPA 1996 : XX)

Traditionally, there has been a strong emphasis on assurance, particularly about the management and use of resources or, more simply put, about how taxpayers’ money is being spent. It should go without saying that the Auditor-General’s information-gathering powers should not override any laws dealing with the powers, privileges and immunities of the Houses of
Parliament. Auditors-General usually have a mandate to at least conduct
financial statement audits. For many, this is a major part of their activities. It
seems there is now (also) general consensus about performance, efficiency
or value-for-money audits being an important part of the role of the Auditor-
General. These audits are primarily about how the money is spent. However, it has not always been thus.

The debate in the context of the Royal Commission on Australian
Government Administration (Coombs Commission) in the mid-1970s
considered the conduct of performance audits by a department of state such
as the Prime Minister’s department. In part this no doubt reflected that
organisation’s role in program effectiveness reviews. The issue now is more
about planning various reviews, evaluations and performance auditing to at
least minimise costly overlap and duplication of such activity. There is a real
opportunity to ensure complementary analyses as part of the accountability
framework ranging from questions about economy and efficiency of the
processes of government to the administrative effectiveness of the use of
resources and then cost effectiveness of government programs singularly or
across portfolios. The latter involve questions about policy which Auditors-
General are required, or usually endeavour, to avoid. Sometimes the ‘grey
line’ is blurred and criticisms are made, as has occurred recently in New
South Wales and Victoria. Nevertheless, I think most of us would fall short of
the wide-ranging performance audit strategy by the Swedish National Audit
Office bearing on the policy goals of the social security sector (SNAO 1995:
11).

Performance auditing can probably be said to be an increasingly significant
element of the audit mandate in most Western countries. Moreover, in New
Zealand, where a separate Audit Commission bids for financial statement
audits in competition with accounting firms for business in both the public and
private sectors, the performance audit function is conducted by the office of
Auditor-General. The public demands for governments to achieve better
value for money, to be more business-like and improve service provision,
combined with the time being given to improving and reporting reliable
performance information, increase the potential value added by an effective
external performance or value-for-money audit function. More about that
later, including the issue of performance audits of Government Business
Enterprises (GBEs).

The nature and extent of the mandate have an important bearing on the
office because it effectively determines the resource requirement including
the professional and technical abilities likely to be demanded. If, as happens
in most countries, the mandate covers both financial statement and
performance audits, there is a strong presumption about the need to
understand both what government does and how it does it. The General
Accounting Office (GAO) in the United States has a wider mandate including
assisting Congress in the supervision of the operations of the executive
branch of government. This is no different in the private sector which
regards knowledge and understanding of the client’s business as an essential element of the process and one which can enhance the value of the audit to management and owners.

There is a considerable advantage if auditors are able ‘to stand in the shoes’ of the auditees. It can be argued there is benefit, both in experience in the public sector and of being part of that sector, to ensure a high level of credibility and effectiveness of a public sector audit office. The integration of audit approaches and products is a real issue for an Auditor-General both now and in the future. This suggests the location and type of audit organisation (whether it is a departmental or statutory authority) could be quite crucial for recruitment and personnel interchange purposes.

The Audit Office’s Relationship to Parliament

In the interests of greater independence it has been suggested an audit office should not be part of an executive government agency but either be a statutory authority or a department of the Parliament. In most countries it is part of an executive department with the notable exception of the United Kingdom. It is at least arguable whether a ‘department of the Parliament’ and working to an Auditor-General who is an officer of the Parliament enhances in any practical sense the Office’s independence or its professionalism. No one could possibly relish the prospect of having to do battle both with the executive and with other parliamentary departments for resources. Does the Auditor-General report to both the Speaker of the House of Representatives and the President of the Senate — with the attendant uncertainties this could involve?

One also should not underestimate the possible disincentive to existing and other public servants from not being perceived to be part of the mainstream public service in the unending battle to recruit highly experienced and skilled people. If the knowledge and understanding of how the public sector works and the functions being performed is regarded as being important to any audit, as I do, it is likely that the public sector will continue to be the major source of recruitment and exchange of personnel. Common values, ethical standards and a commitment to the public service, facilitate both staff transfers and an atmosphere of trust and understanding. On the other hand, Sir John Bourn considers appointment of his own staff from within or outside the public service is a distinct advantage in the UK situation even though their salary levels (over which he has control) vary only marginally from those in the public service proper.

Any disincentives may also apply in the situation of the audit office as a separate statutory authority, which effectively places public servants outside
the ‘policy/program management’ sector. My predecessor, John Taylor, saw distinct advantages with the statutory authority format, particularly where the staff were not subject to public service pay and other conditions of service. Clearly, different judgments can be made about what kind of independence is necessary and the impact particular decisions could have on the performance of the Auditor-General and his or her office. There is no apparent reason why the audit office could not be a parliamentary authority. The staff could be employed under the Public Service Act or a mirror version of the relevant terms and conditions. The JCPA accepts that, under the Auditor-General Bill, the Auditor-General will be a statutory officer and the ANAO will be a statutory authority (with staff employed under the Public Service Act) administered within the executive government (preferably the Department of Prime Minister and Cabinet). (JCPA 1996: 43-44).

Working with an Audit Committee

Another encouraging development is the increasing interest in a general consensus about the benefits of an Audit Committee of the Parliament. No doubt reflecting the ‘special’ relationship between public account committees and the audit office, there is strong support at the Commonwealth level for the Joint Committee of Public Accounts (JCPA) to assume that role. However, the previous federal government saw some contradiction in the JCPA being both involved in the audit process and making judgments on the outcomes. It is suggested that the committee could play a large role in the selection of an Auditor-General in conjunction with the executive, which raises the question why the executive needs to be involved at all. If, as presently, the Auditor-General is also part of the executive, it would seem justifiable that the same processes of merit selection are employed to ensure quality candidates are identified. An independent rating exercise by the committee could both enhance the processes and give them greater credibility. Simply put, few are likely to disagree that an Auditor-General should be able to justify his or her candidature as is done, for example, in NSW.

In a letter to the Reviewer of his Office earlier this year, the Auditor-General of NSW, Tony Harris, addressed the issue of the interdependent relationship between a public accounts committee (PAC) and the Auditor-General. Recommendation 7 of the Review Report (1996: 14) states that:

‘The Public Accounts Committee should retain its current role and should not act as a parliamentary audit committee nor make recommendations to the executive on the level of resources required by the Auditor-General.’
Tony Harris noted two broad the Auditor-General and a PAC at work in various constituencies. One is where a PAC recommends the resources necessary for the audit functions and holds the Auditor-General accountable for their use and the other where both bodies hold the government accountable. He stressed the importance of the interdependent relationship.

An Audit Committee could provide an independent assessment of level of resources required by the audit office and recommend this to the executive and/or Parliament for appropriation. The JCPA is in favour of a public hearing process on the ANAO’s resources including a review of its audit fees. In addition, that Committee considers any report and recommendations should be tabled in Parliament, not just submitted to the responsible Minister. The JCPA went on to recommend that the ANAO’s appropriation should appear as a separate schedule in the Budget Papers and remarked that:

‘The appropriation should be visibly separate from both Departmental and Parliamentary appropriations, to reinforce the perception of independence and to facilitate comparison of the ANAO’s appropriation with the recommendation of the Audit Committee on that appropriation.’ (JCPA 1996 : 66-68).

An Audit Committee could provide valuable advice (but not attempt to dictate) on strategic directions (the audit priorities of the Parliament), and on audit coverage, without adversely impacting on the Auditor-General’s independence. It could be a filter for individual or collective parliamentary suggestions for individual audits. It could review the performance of the office, particularly in its accountability for the use of the resources provided. In short, it could be the parliamentary body to which the Auditor-General is responsible with the chair establishing the reporting relationship. Such roles would require the provision of adequate assistance, including appropriate expertise.

In summary, there is universal acceptance of the need to provide for the actual and perceived independence of the Auditor-General. That independence is derived from the Parliament. This is encapsulated in the following observation:

‘The power of the Auditor-General to report as thought fit is one of the linchpins of the independence of the Audit Office.’ (OCAG 1995 : 4)
The more substantive issues, which have been the subject of parliamentary and public debate to date, have been about the relationships with the executive concerning appointment, functional independence, resourcing, mandate and implementation of audit recommendations. Greater involvement of Parliament and, in particular, committees such as the JCPA are seen as a means of ensuring that independence is enhanced through these mechanisms. It is no doubt a reflection of the importance placed on the Auditor-General as part of the system of checks and balances between Parliament and the executive. That observation is particularly apt in the Australian concept where the federal government has a minority in the Upper House of Parliament.

Most parliamentarians, if not all, would accept the notion of the Auditor-General being ‘Ally of the People and Parliament’ but this should not translate to being the ally of particular interest groups simply because they do not have sufficient influence. Nevertheless, their views or concerns would be taken into account in the audit processes. As well, such independence demands a high level of accountability. The links between these two concepts are what make Auditors-General different. If we can get the independence issues right what, then, can we do in relation to accountability?

Future Scope of Auditors-General

Within the limitations of this address, I will now look at the imperatives and opportunities open to Auditors-General both to enhance the accountability framework and be a credible contributor. We recognise both the ‘Caesar’s wife’ syndrome that bedevils us and try not to live in ‘glass houses’.

Catalyst or Consultant

As noted earlier, the reality is that Auditors-General are central to the governance system within which they work. Many Auditors-General are taking initiatives aimed at influencing the nature of that system rather than simply being a watchdog over it. We have seen this, for example, with the GAO in relation to the US National Performance Review, in Sweden with their social security system (referred to earlier) and in British Columbia with their joint efforts in association with the Deputy Ministers’ Council to improve accountability and performance management in the public sector. An area of growing importance is corporate governance and its particular application in the public sector.
There are at least two considerations that need to be addressed with such activity. The first is the mandate issue to which the resourcing question is quite fundamental and potentially limiting. The second is the possible involvement in policy issues and the question of independence. While it has been said that Auditors-General can largely determine their own mandate within the legislative constraints, and there are indications across the public sector that they do, involvement in such broad governance issues does require careful consideration. Auditors-General generally at most tread the grey line between policy and administrative effectiveness. Sometimes there are differences in views as to what are the implications of particular statements, for example in NSW on transport issues and the Sydney road tunnel. An independent panel report to the US Senate Committee on Governmental Affairs pointed to an erosion of GAO’s ‘credibility and authoritativeness’ by its involvement in policy areas. It recommended (RNAPACGA 1994: 51) that:

‘GAO should be especially careful in formulating terms of reference for studies with heavy policy implications, particularly if GAO has no past base of empirical evidence from its earlier audits and program evaluations.’

Probably the message is ‘stick to your knitting’ and prioritise the use of available resources. The more serious threat to independence is possibly the defence of a single policy choice. Perhaps the more defensible course is not to be involved in policy issues, with all their definitional problems, particularly where the audit office does not have a mandate similar to GAO’s or its extensive involvement in evaluations. However, it can be argued that audit offices should be flexible, taking proactive stances where necessary and anticipating rather than simply responding to change. There is a need to remain both credible and relevant to all stakeholders even where there might be conflicting priorities and demands and it is accepted that Parliament is our principal client.

It is clear that there are many fields to plough without necessarily being involved in policy setting. The nature of governance is changing at all levels of government in many Western democracies. There is a tendency to smaller government; consideration of overlap and duplication of services across constituencies (such as is being addressed in the context of the Council of Australian Governments); devolution of authority; commercialisation and privatisation, including the provision of public services by the private sector in the so-called purchaser–provider model; a concomitant focus on clients and quality service delivery; the greater use of information technology and telecommunications as an enabler, as witnessed by the use of touch screen information provided in shopping centres; and the
emphasis on performance for results and the commensurate demand for greater accountability. An interesting development in a number of audit offices is the preparation of good or better practice guides. In effect, these are an ‘intelligent’ use of the extensive information available within and across audits at quite marginal cost to the overall audit process. As well, there is the slowly increasing use of joint audits, particularly in the federal systems, and interest in a ‘one audit’ approach.

Downsizing of the public sector may well have important implications for corporate knowledge and maintenance of essential internal controls. It is hoped that this will not also extend to the internal audit function which, in the past, has tended to be an area of apparent low priority in staff retention. It may well be desirable for audit offices to provide audit-related services in such areas which it could do at reasonable cost and to the advantage of the later external audit effort required to complement any internal audit activity. The agencies concerned are often quite prepared to pay for such services.

The issue for Auditors-General is whether, and how, to build in scope to undertake these services in their strategic and operational planning. Similar considerations apply to issues of accounting treatment, application of standards and financial reporting, particularly as agencies are having to adopt accrual techniques for their financial statements and increasingly for management purposes. This extends to being proactive in examining accounting and other systems before, rather than after, the event. For example, audit offices can help to achieve considerable cost savings by identifying controls that should be built into such systems during the design and development phase.

It is clearly in the interests of audit offices to understand planned developments in the accountability framework, particularly those that are likely to impact on the audit function. Many have been at least consulted, if not actively involved, in the preparation of financial guidelines, model accounts and financial statements. Considerable scope has emerged for a complementary relationship with those executive agencies responsible for whole-of-government accrual reporting and accounting. The Australian National Audit Office has been engaged in a joint exercise with the Department of Finance to prepare a draft set of whole-of-government financial accounts on an accrual basis which was provided to the Audit Commission as part of its considerations and will also be submitted to the JCPA for any comments. In NSW, cooperation between the audit office and Treasury is likely to have a marked effect on the credibility of such accounts (NSWAG 1996):
The imperative will be to keep our eyes on the main game. In that respect audit offices could well do more to encourage the use of better approaches and techniques to enhance performance but, in my view, we are not a consultancy service.

Auditing in a More Commercial Environment

Some audit offices may see the current commercialisation, outsourcing and privatisation moves as more a threat to their future than an opportunity. Whatever the perception the challenge is the same, that is, to develop the required expertise and to be a credible performer. That is our insurance if we are to continue to be a player in the game. I noted with some interest the following reported comment by the Victorian Premier on a recent audit dealing with the state government’s use of public funds for political advertising (Le Grand 1996: 6):

‘If you’re going to have performance audits done on anything, whether it be a government function or whether it be a private sector function, you need to have doing those audits, or assisting those people, people who have an understanding of the industry itself, otherwise you can’t make the comparisons that are being made.’

This was later followed, coincidentally again in Victoria, by a reported observation by the financial director of a previously publicly owned energy company about a dispute concerning a qualified audit opinion as follows (Robinson 1996: 2):

‘We would argue we are taking a more commercial view. He [the Auditor-General] is falling back on accounting principles and technicalities.’

Such comments are not rare as most Auditors-General would confirm. But they raise public accountability issues that go well beyond requirements for specific expertise or lack of commercial appreciation. For example, one commentator raised the issue of ethical conduct of auditors and the issue of transparency (Davidson 1996: B4). It is sufficient to note here for my purposes that public sector auditors are vulnerable to such criticisms, which
need to be addressed directly, as well as the broader issues, in order to maintain, and preferably increase, the confidence of their various stakeholders. This will involve, for example, greater commercial focus of personal development and recruitment strategies and practices; stronger partnership arrangements with public sector entities and private sector accounting and auditing firms, including personnel interchanges; and a re-examination of the nature and extent of our audit products. Auditors-General need to be proactive in addressing any perceived audit expectations gap.

The area which perhaps poses most risks for Auditors-General is privatisation of GBEs of which they have been auditors particularly when their actions are subject to any due diligence investigation. Getting it wrong can not only be a huge blow to an audit office’s reputation and credibility but also very costly. It takes us further into the world of the Corporations Law, the Australian Securities Commission, the Consumer Protection Commission and the Australian Stock Exchange. Recent problems for a number of the ‘big six’ accounting firms are instructive in this respect. Perhaps the most complex environment, and the area where the two cultures can come into sharp contrast and contradiction and maybe conflict, is that of partial privatisation particularly where the external (private sector) shareholding is in the minority. An auditor’s responsibility is to all shareholders which does raise questions about an Auditor-General’s ‘special’ relationship with the Parliament, whether public ownership and control relate to a majority or minority shareholder situation. The issues are both legal and prudential.

Performance audits of GBEs also raise issues for further consideration. At the federal level, there is a difference of view as to whether the Auditor-General should be empowered to conduct such audits or, indeed, whether the Parliament (or one of its committees) should be able to ask him or her to do so. The JCPA considers that the best way of ensuring Parliament’s capacity to assess effectively the operation and activities of GBEs is to ensure that the Auditor-General has an absolute mandate - covering all Commonwealth entities for all types of audit. As well, the JCPA should be given the discretion to request a performance audit of a GBE (JCPA 1996 : 21). It has been argued that the commercial disciplines are sufficient for accountability purposes. On the other hand, the government cannot simply divest itself of its shareholding if it is not satisfied with a GBE’s performance as can an ordinary shareholder. The simple answer is that it could dismiss some or all of the board. That is obviously somewhat extreme.

The above situation is even more complicated with partial private sector ownership and the resultant split responsibilities confronting the auditor. This particular mandate varies across audit offices but it is a generally accepted principle that Auditors-General should be able to undertake audits of such organisations. There may be a greater imperative to demonstrate the latter’s
value in practical terms in the New Public Management environment, including dealing with reservations about exposure of commercial-in-confidence information and the related possible adverse impact on competitiveness.

Finally, with the move to greater private sector involvement in the delivery of government services, there is a growing concern about the assurance Auditors-General can provide about the accountability framework without examining and perhaps disclosing details, for example, of costing and pricing data. The latter imperative is most likely where there is limited or no real market competition. These aspects have been an issue in a number of audits in Defence contracts (ANAO 1995: 31). In this respect, information suggests that official access to private sector records in the United Kingdom and the United States can occur as a matter of course. However, the issue goes much wider than Defence with greater outsourcing generally in various public sectors and the provision of services such as case management for the unemployed at the federal government level. This point has been recognised by the Department of Treasury and Finance in Victoria with its comprehensive guidelines on outsourcing. The Victorian Auditor-General also noted (AGV 1996: viii):

'I have raised with the Department the need for my Office to have full, free and timely access to relevant records of service providers and the need to ensure that such access is provided for in contracts between public sector agencies and service providers.'

A related issue, as noted above, is an Auditor-General’s authority to restrict publication of sensitive information. Involvement of the executive and the Auditor-General’s relationship to Parliament needs to be worked through to ensure that all interests are protected including assurance of an effective audit outcome and Parliament’s ‘right to know’.

**Focus on Performance**

While the various public sector reform movements in many countries over the last five to ten years or so have stressed the requirement for greater efficiency resulting in changed administrative processes and structures, there has been a widespread movement towards a concept of better government that focuses more on the citizen and meeting his or her expectations about the nature, quality and extent of public services. Illustrations of the latter are the UK’s Citizen’s Charter, the USA’s catchcry of ‘putting customers first’ and New South Wales’ ‘guarantees of service’. A distinction should be made
between the rights and responsibilities of a citizen against the notion of treating citizens as clients or customers for purposes of service delivery in a similar way to that used in the private sector.

Client service delivery has also been receiving considerable attention at the federal government level. However, this has brought a greater concentration on accountability for the achievement of actual results. There is an associated focus on performance information. Auditors-General can both encourage and facilitate such a movement but also provide greater reassurance by conducting suitable performance information audits.

As the Commission on Government in Western Australia noted, that state's Audit Office is widely considered to be at the forefront of developments around the world in the audit of performance indicators. The New Zealand Controller and Auditor-General has a similar responsibility and other countries such as the UK, Canada and USA have the issue under consideration (CGWA 1995: 201–4). The Victorian Public Accounts Committee has also recommended that performance measures be:

‘... audited by the Auditor-General who should express an opinion on the performance indicators as to their relevance and appropriateness.'

In evidence before the Public Accounts Committee in NSW, the Auditor-General, Tony Harris, submitted that (PAC 1996: 50): ‘improving the reporting of performance indicators is the single most important remaining means to improve accountability in the NSW Government’. He went on to say that auditing of performance indicators would help to moderate the resistance to such reporting by agencies. The Treasury submitted that (PAC 1996: 51):

‘... it would not be appropriate for the Auditor-General to be given a role in examining the relevance or appropriateness of performance indicators.’

but stated it did not have any difficulty with (PAC 1996: 51):

‘... the proposition of having the Auditor-General giving some assurance as to the quality of the data and compilation process.'
Interestingly, the PAC recommended that the Auditor-General should be given a role slightly different to that played by the WA Auditor-General as follows (PAC 1996: 54):

‘The Auditor-General should attest to the accuracy of information reported by agencies’.

No doubt there will continue to be debate about the audit of performance information as there was in last year’s INTOSAI conference. But there clearly is scope for working with agencies on the improvement of such information and in providing added assurance as to its quality, relevance and comprehensiveness. It would seem to me that any performance audit should include an analysis of the relevant performance indicators as a matter of course. It does not seem sufficient to attest merely to their accuracy.

Looking in Our Own Backyard

Most Auditors-General would agree that we have a lot more to do to establish credibility for our own performance. A program manager’s quick retort ‘show me yours’ is indicative of that need. Independent reviews by PACs, ex Auditors-General, the ‘big six’ accounting firms and other audit offices have become quite common in recent years. As well, there have been moves to acquire quality accreditation by quality councils or at least to meet the requirements for such accreditation. For those audit offices that conduct performance audits, there is usually a legislative requirement to provide a copy of the draft audit report to the agency(ies) concerned for comment which is included in full, or in summarised form, in the final report. In addition, many performance reports are the subject of parliamentary committee hearings and investigations as well as considerable media and other private sector comment and analysis.

We need to look closely not only at the costs we incur but also those we impose on other entities. While many audit offices have time recording systems for costing purposes, we have to ensure that they are in a form suitable for budgeting and comparison with suitable peer performance including quality outcomes. We should be managing on an accrual basis and clearly identifying performance information by which we can be held accountable. The focus should be more clearly on the full cost to produce any audit report or audit-related service. Allied with this notion is the possible use of industry cost benchmarks with clear articulation of the reasons for any differential associated with being part of government. This would greatly assist with the requirement to demonstrate our cost effectiveness. This
would also improve the transparency of the accountability process for the office.

In essence, the real accountability is the requirement to report to Parliament. The latter is also the linchpin of the Auditor-General’s and the Audit Office’s independence. The JCPA considers that the Auditor-General’s ultimate client is the Parliament (JCPA 1996 : 37). I agree with that view as I think other Auditors-General would. One could also add the duty to consult to ensure reports are accurate, balanced and fair. It is also important to recognise the principle of natural justice. This is an indication of our responsibility to other clients who are also recognised by the JCPA. In the ANAO’s case, our vision is to add value to public administration which means working pro-actively with entities within and outside the framework of individual audits. That poses the question as to how Audit Offices are to be held accountable for their performance in these respects. The JCPA considers that the Auditor-General should be accountable to the Parliament for the efficient performance of the audit function (1996 : 44).

Audit legislation in a number of constituencies requires that external reviews of audit offices be conducted periodically. The independent external auditor of the Australian National Audit Office not only reports to the Minister for Finance on our financial statements but also has the power to conduct performance audits. In line with the earlier discussion of an Audit Committee of Parliament, there is an issue as to whether periodic reviews should not be initiated and overseen by that committee. A further issue raised by the WA Commission of Government is whether the results of such reviews should not be tabled in Parliament. There is no reason that they should not but, equally, they could be included with other performance information in the Auditor-General’s annual report.

Conclusion

It is reasonable to conclude that debates about the independence of Auditors-General and their effectiveness, particularly in Westminster-style democracies, stem largely from the public demand for better government which largely translates into being more accountable for its performance. The view seems to be that Auditors-General should play a significant role in keeping government ‘honest’ in this respect. The concern is more than about ‘checks and balances’. Simply put, it is about results. This means that Auditors-General should be looking to cast their nets at least wider than they have in the past to meet such demands. For some, it could mean quite different audit approaches, a different mix of skills and even different relationships with their various stakeholders such as Parliament, ministers and public sector entities.
The move to smaller, more commercially oriented government will not only require re-thinking of financial statement audits of increasingly accrual-based information and systems but also audits of financial and other controls and different administrative processes that may be more private sector oriented. As well, the focus of efficiency, value-for-money or performance audits will need to take account of a more competitive, market-oriented environment. There may well be audit expectation gaps that need filling if Auditors-General are to be fully accountable for their performance. One gap could be in relation to performance information. In my view, Auditors-General will need to be more proactive in understanding, being part of and influencing such changes in governance. As a subset of this changing framework, we also need to assist in developing an appropriate model of corporate governance for the public sector including an emphasis on ethical behaviour and codes of conduct. We cannot afford to take a disinterested and somewhat belated watchdog role.

The comparative strength of Auditors-General is due to their interdependence with the Parliament, their statutory independence and authority and their knowledge and understanding of the parliamentary, executive and public service institutions, inter-relationships and operations. Despite the moves to more business like approaches, the political nature of the public sector environment will ensure its unique character is maintained which makes it different from the private sector. Auditors-General can add considerable value in this environment but they will ultimately be judged by their performance.

The major challenges for the ANAO in the immediate future will be to demonstrate that not only are we contestable but also that we are valued by our stakeholders, particularly the Parliament. In large part the latter will be determined on how we demonstrate we have used the independence provided to secure real accountability and better public sector performance. Our contribution and credibility in these respects will be fully tested in our relationship with the JCPA as the Audit Committee of Parliament under the proposed new legislation. That legislation and the complementary new Public Service Act will provide a quite different framework for the future provision of public services.

I am confident that a public sector oriented public audit office can add real value to such a changing environment by concentrating on its core business and complementing its in-house resources with the best available expertise in the private sector. In this way we are using the comparative advantages of both sectors to achieve more cost effective audit outcomes. That seems to be the emerging model for delivery of public services in the future. It is our collective responsibility to make it work.

For its part, the ANAO will be responsibly exercising the independence provided by Parliament to establish a credible and pro-active accountability
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framework aimed not only to provide assurance to all stakeholders of the probity and ethical and efficient use of public resources but also of their cost effectiveness in meeting stated government objectives. In short, our aim is to contribute to a highly performing world class public service that is valued by the Australian community.
Endnotes

1. On 12 August 1996 the Minister for Finance, the Hon. John Fahey, MP, requested the JCPA to suggest appropriate measures that could be incorporated into the Auditor-General Bill, or other legislation, to support the functional independence of the Auditor-General, in keeping with the nature of that Office. The JCPA reported on 10 October with 16 recommendations aimed at achieving the specified objective. The Chairman’s Foreword stated that:

   ‘the JCPA considers the independence of the Auditor-General to be absolutely fundamental to public accountability in Australia’.
   (JCPA 1996 : xii).

The Committee concluded that the title ‘Independent Officer of the Parliament’ best symbolises the role and status of the Auditor-General with a declaration to that effect to be included in the Auditor-General Bill. Other recommendations are aimed at providing complete discretion over the discharge of the audit function and in directing staff of the ANAO in the performance of audit duties. Approval of the Government’s nomination for appointment to the position of Auditor-General, examining ANAO budget estimates and recommending the parliamentary appropriation in a separate budget schedule are some of the identified duties of the Audit Committee (JCPA). These are considered to be some of the ways the JCPA envisages guarding the independence of the Auditor-General. It seems likely the draft bill will reflect most of the JCPA’s recommendations.

2. Legislation to replace the Audit Act 1901

A potted history:
- 9 March 1989 - JCPA Report 296 - recommends legislation to replace the Audit Act 1901

- New legislation comprises
  - Auditor-General Bill
  - Financial Management & Accountability (FMA) Bill
  - Commonwealth Authorities and Companies (CAC) Bill

- 29 June 1994 - Bills introduced into the House of Representatives; Bills referred directly to the JCPA for inquiry and review
29 June 1994 - ANAO tables Report 43 ‘Parliament’s Right To Know - Legislation to replace the Audit Act 1901’

22 September 1994 - JCPA report 331 - generally supportive of the Bills

9 February 1995 - Bills passed by the House and referred to the Senate; immediately referred to Senate Standing Committee on Finance and Public Administration (FnPA)

6 March 1995 - Senate FnPA reports on aspects of the Bills

22 March 1995 - Senate proposed 31 amendments

29 March 1995 - House accepts 8 of the Senate amendments then returns Bills to the Senate

February 1996 - The Senate had not considered the Bills when Parliament was prorogued for the election

April 1996 - The Government indicated its support for the Bills’ reintroduction

12 August 1996 - Issues relating to Auditor-General as Officer of the Parliament and an Audit Committee of the Parliament referred to JCPA by Minister for Finance (Mr Fahey)

10 October 1996 - JCPA tables Report 346 ‘Guarding the Independence of the Auditor-General’

Expect reintroduction, following some amendments, late this year

Expected commencement date 1 July 1997

3. In correspondence on this point the JCPA Chair, Mr Alex Somlyay, MP, made the following comment as his personal view:

An audit committee should and could only ever make suggestions as future audit themes or priorities, not direct that particular
investigations take place. The Auditor-General’s statutory rights to exercise independent judgements about whether or not to undertake particular audits is an essential check in the system. I have always assumed that an audit committee would be only one of various sources of information an Auditor-General would consider in determining the future work program of his or her Office.
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References


* Public Accounts Committee 1996. Annual Reporting in the NSW Public Sector (The Truth, the Whole Truth and Nothing but the Truth?), Report No. 5/51, Sydney, March.

* Public Accounts and Expenditure Review Committee of the Parliament of Western Australia (PAERC) and the Western Australian Auditor-General 1996 ‘Statement of Understanding’, 23 October.


