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An historically informed episodic study of state audit independence

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**AN HISTORICALLY INFORMED EPISODIC STUDY OF
STATE AUDIT INDEPENDENCE**

A thesis submitted in fulfilment of
the requirements for the award of the degree

DOCTOR OF PHILOSOPHY

from

UNIVERSITY OF WOLLONGONG

by

Warwick N. Funnell B.A., Dip Ed., B.Com(Hons), M.Com(Hons)

Department of Accountancy
June 1994

Certificate

I, Warwick Norman Funnell, certify that this thesis has not been submitted previously as part of the requirements of another degree and that it is the product of my own independent research.

**AN HISTORICALLY INFORMED EPISODIC STUDY OF
STATE AUDIT INDEPENDENCE**

VOLUME I

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LIST OF ABBREVIATIONS USED IN THE THESIS

A.O.	Audit Office correspondence and other documents, Public Records Office, Kew, London.
A/M	Additional Manuscripts, the Gladstone Collection, British Museum
AAO	Australian Audit Office
ACT	Australian Capital Territory
ADP	Automatic Data Processing
ANAO	Australian National Audit Office
BPP	British Parliamentary Paper
C&AG	Comptroller and Auditor General (Great Britain)
DAG	Deputy Auditor-General
DAS	Department of Administrative Services
DOD	Department of Defence
DOF	Department of Finance (Commonwealth)
E&AD	Exchequer and Audit Department (Great Britain)
EA	Efficiency auditing
EAD	Efficiency Audit Division of the Australian Audit Office
EDP	Electronic Data Processing
FMCS	Financial Management Control Study (Canada)
GAO	General Accounting Office (USA)
HR	House of Representatives
IDC	Interdepartmental Committee
JCPA	Joint Committee of Public Accounts (Commonwealth)
LSEA	Limited Scope Efficiency Audit
PAC	Public Accounts Committee (Great Britain)
PM&C	Department of Prime Minister and Cabinet
PSB	Public Service Board
RCAGA	Royal Commission on Australian Government Administration (Coombs Commission)
T.	Treasury documents and correspondence with the Audit Office, Public Records Office, Kew, London.

CHRONOLOGY OF STATE AUDIT

- 1703 Comptrollers of the Army Accounts Established
- 1780 Burke's Economical Reform speech on 11 February
- 1780 Commissioners of Audit (7) appointed under 20 Geo.III. c.54
- 1782 Burke's Civil Establishments Act, 22 Geo.III. c.82
- 1783 Commissioners for Auditing the Accounts of Ireland established
- 1785 Abolition of the office of Auditors of the Imprest
- 1785 Commissioners for Auditing the Public Accounts appointed, 25 Geo.III. c.52
- 1787 Consolidated Fund established
- 1789 Pitt's administrative reforms
- 1799 Auditors of the Land Revenue abolished
- 1805 An additional Board added to the Commissioners for Auditing the Public Accounts
- 1806 Petty's audit reform (46 Geo.III. c.141) which added another four Commissioners of Audit to give a total of 10.
- 1810 Committee on Public Expenditure
- 1813 Board of Audit reorganised into two divisions by the Treasury
- 1819 Select Committee on Finance
- 1822 Two divisions of the Board of Audit combined into one at Somerset Place
- 1831 Sir James Graham becomes the First Lord of the Admiralty
- 1832 Office of Commissioners for Auditing the Accounts of Ireland abolished
- 1832 Sir James Graham's *Audit Act*, 2 Will.IV. c.40
- 1835 Office of Comptrollers of the Army Accounts abolished
- 1846 *Audit Act* extending appropriation audits to the army (9&10 Vict. c.92)
- 1849 Office of the Auditor of the Excise abolished
- 1851 Audit Act extending appropriation audits to the Departments of Woods, Forests and Public Works (14&15 Vict. c.42)
- 1857 Report of the Committee of Public Monies
- 1860 Select Committee on Miscellaneous Expenditure

- 1866 *Exchequer and Audit Departments Act (1866 Audit Act)*
- 1867 1 April, 1866: *Audit Act* operational
- 1878 *Canadian Audit Act*
- 1902 Select Committee on National Expenditure
- 1921 *An Act to Amend the Exchequer and Audit Departments Act 1866 and 1889 (UK).*
- 1931 Canadian audit reforms, *An Act to Amend the Consolidated Revenue and Audit Act.*
- 1951 Canadian audit reforms, *An Act to Provide for the Financial Administration of the Government of Canada, the Audit of the Public Accounts and the Financial Control of Crown Corporations.*
- 1962 Report of the Canadian Royal Commission on Government Organisation [the Glassco Commission]
- 1968 Fulton Committee (UK)
- 1972 19 December: First election of the Whitlam Labor Government
- 1974 May: The Royal Commission on Australian Government Administration [RCAGA] is announced
- 1974-76 The Canadian Financial Management Control Study (FMCS).
- 1975 Report of the Canadian Independent Review Committee on the Office of the Auditor-General of Canada (Wilson Committee).
Joint Review of Audit Legislation (Australia)
- 1976 September: Canadian Auditor-General commences the Study of Procedures in Cost Effectiveness (SPICE).
December: Prime Minister announced Government approval for implementation of a system of efficiency audits as proposed by the RCAGA
- 1977 March: After receiving the report of the Working Party of Officials on Efficiency Audits Cabinet decides to make efficiency auditing the responsibility of the Auditor -General
November: Report of the *Working Party on Efficiency Audits* tabled in Parliament
Report of the *Royal Commission on Financial Management and Accountability* (Lambert Commission) in Canada.
December: John Jones is appointed as First Assistant Auditor-General to head the Efficiency Auditing Division of the AAO.
The *Canadian Auditor-General Act* is passed
- 1978 April: EAD commences methodology and program development work. Feasibility studies commenced, with the student assistance program of the Department of Education first, followed by the Australian Development Assistance Bureau and the Property Management Section of the Department of Administrative Services.
- 1979 March: Royal assent to the amended *Audit Act*

Report of the Canadian *Royal Commission on Financial Management and Accountability* [the Lambert Report]
 Election of the Thatcher Tory Government in the Britain

- 1980 Establishment of the Canadian Comprehensive Auditing Foundation.
- 1981 February: Steele Craik retires and Keith Brigden becomes Auditor-General
- 1982 May: The Thatcher Government announces the Financial Management Initiative
- 1983 The British National Audit Office is established and the *National Audit Office Act* is passed.
 March: Election of the Hawke Labor Government
- 1984 January: John Jones takes 15 months leave without pay from the AAO to work with Price Waterhouse in Sydney
 September: The Efficiency Audit Division of the AAO is finally closed
- 1985 February: Brigden retires as Auditor-General and is replaced by John Monaghan
 Review of Public Sector Efficiency Review Mechanisms

ABSTRACT

The aim of this thesis is to establish the existence of a discourse of independence in Australian state audit during the period 1901-84. Since Federation the Australian Commonwealth Auditor-General (state auditor) has been widely accepted as an independent officer as a consequence of a persuasive discourse of independence sustained by successive executive governments. This has arisen primarily from clauses of the *Audit Act of 1901* which relate to the *person* of the Auditor-General. These provisions include guarantees of access for the Auditor-General to Parliament and security of tenure, although not financial autonomy for his Office. The state auditor's financial dependence on the Executive has meant that his independence has been *conditional* and not *substantive*. The discourse which developed around state audit has been successful in allowing these flaws in independence to go almost unchallenged.

Interpretations of independence for Australian state audit were borrowed from the British *Audit Act of 1866* which was the culmination of the development of state audit over the period 1785-1866. *This constitutes the first episode or epoch in the development of modern state audit.* The *1866 Audit Act*, while providing a measure of protection for the person of the Comptroller and Auditor General, had no intention of creating an independent Audit Office. Not only was this thought unnecessary to ensure basic checks on the accounting procedures and spending levels of the Executive but, at the time, it was contradictory to the form to which state audit had evolved in Westminster governance.

After over a century of dominance the 19th century form of state audit and its conception of independence borrowed from Britain were seriously challenged for the first time in the 1970's. Economic and political problems pressured Westminster governments to change their traditional Westminster conceptions of accountability and responsibility. *This marked the start of the second significant episode in the development of state audit.* The reactions of Britain and Canada at this time provide models and a foil to understand the coincident changes made to Australian state audit. Both Britain and Canada responded by widening the mandate of state audit and instituting a *substantive* form of independence which gave the state auditor financial and staffing autonomy from the Executive for the first time.

Following the recommendations of the RCAGA (1974-76) Australia modified the mandate of the state auditor but refused to enhance his Office's independence. The state auditor was given explicit authority to conduct efficiency audits but was not given financial and management autonomy similar to the Canadians to carry out these new audits. The partial nature of state audit reforms placed state audit in a position where the imperfections in its independence and therefore the deception of the discourse of independence became obvious.

The difficulties experienced by the Efficiency Auditing Division (EAD), which was established in 1978 to conduct efficiency audits, and the state auditor's reactions to these provide a unique opportunity to highlight the limited nature of Australian state audit independence and to expose the presence and perpetuation of a discourse of independence by self interested executive governments.

PART 1
FOUNDATIONS

CHAPTER 1

INTRODUCTION

Like most big subjects in the modern world, the problem of public audit is in its essence hard, dry and technical ... Yet, the subject is explosive. Without audit, no accountability; without accountability no control; and if there is no control, where is the seat of power? [Normanton 1966, p.xii]

CHAPTER 1

INTRODUCTION

1.1 THE THESIS: THE DISCOURSE OF INDEPENDENCE

The aim of this thesis is to establish the existence of a discourse of independence in Australian state audit¹, as promoted by executive governments, through a study of the history of the British *Exchequer and Audit Act of 1866* (1866 Audit Act) and the assumption of efficiency auditing between 1978-84 as part of the Australian state auditor's mandate. These constitute the two most important episodes in the evolution of Australian state audit.

In order that the independence of the office and position of the state auditor be above reproach, the discourse of independence used a complex array of constitutional myths, imagery and ritual to portray the state auditor as free from Executive interference and control when the reality was that the Executive had at its disposal numerous controls which had the ability to have a marked effect on the work of the state auditor². The very existence of these controls, irrespective of their use, was sufficient to inhibit the independence of the state auditor. The thesis also shows that the Executive has resisted any moves to improve state audit independence.

State audit can be conceived as a legitimising institution which provides a means by which current political arrangements can be sustained. Information from state audit

1. The term state audit is used to refer to the public sector body responsible for auditing the accounts for the central government. It does not apply to auditors of the governments of individual states, such as Victoria in Australia, nor does it refer to local government auditors. The state auditor is often referred to as the Supreme Audit Institution.

2. Normanton has hinted at this darker aspect of state audit by characterising British state audit as "less exclusively the instrument of parliament than has sometimes been supposed" [1966, p.20].

gains its legitimacy from the technical, professional skills of the auditors but more by its projection as a function carried out by independent evaluators. For this process to be successful, in the sense that it is accepted by groups which need to be convinced, the legitimacy of state audit as a legitimising institution needs to be placed beyond contest or dispute. This hegemonic perspective of legitimisation [see Richardson 1987, p.342] by state audit has been dependent upon a discourse of independence. The key elements in this discourse have been: accounting numbers which can be regarded as objective evidence of past actions; a group of trained experts which is seen as a very select cabal possessing arcane knowledge and characterisation of this priestly sect as incorruptible, independent agents. When combined, these elements have constituted a very persuasive discourse of independence in the service of the Executive. By capturing state audit the Executive has been able to use the rhetoric of independence to legitimise its actions and position.

The independence of state audit has been more a statement of constitutional fiction rather than a reflection of the reality, which probably accounts for a general reluctance in the past to examine too closely the nature and sources of state audit independence. It is as if state audit independence has been treated very much with Miss Havisham's wedding cake³ in mind: while ever it is left untouched it will stand. More generally, despite the importance accorded to the role of Auditor General (AG) within Westminster democracies it has received very little critical attention in the literature, independence much less. Instead, most examinations of state audit have been limited to heavily descriptive surveys of past practices and institutional histories [Chubb 1952; Cathro 1980; Kimball 1976].

This study does not argue that state audit has been devoid of independence or that confirmations of independence by the state auditor have been a sham. What it does

³. In Dicken's *Great Expectations*, the wedding cake kept for 50 years by the jilted Miss Havisham crumbled to dust at the first touch.

show is that there have always been limits to the independence of state audit, that these limits were well known to successive Executive governments and were consistently maintained by them in their own interests. When the state auditor encounters periods of stress it is then that these limits become discernible. Then the *reality* of the independence of state audit rather than the *image* is allowed to be visible, if only for a short period. As a result of the investigative opacity of state audit, particularly in its relations with the Executive⁴ at high levels, and the secrecy of government, heavy reliance must be placed on insights gained through windows provided by significant stages and crises in the evolution of state audit. Richardson, following Giddens, agrees that

the values which accounting embraces and enacts are implicit in action and, therefore, invisible to conventional methodologies. One way around this problem may be to focus on "critical situations" ... where social routines are disrupted and the implicit become problematic. Legitimation crises in accounting may provide cases where the premises of accounting become observable [p.352].

By examining the responses of the state auditor under stress during the introduction of efficiency auditing between 1978-1984 an attempt is made to lift the mask of social and political acceptance of the discourse of state audit independence which has been carefully and strategically crafted over many years.

1.2 THEORETICAL AND METHODOLOGICAL BEARINGS

1.2.1 *Westminster Governance and the Responses of State Audit*

This thesis is grounded in Westminster constitutional theory which stresses the constitutional preeminence of Parliament and the accountability of the Executive, chiefly through its Ministers, to Parliament. The constitutional sovereign power of

4. The term Executive will be used to refer to the sum total of the members of the majority party in parliament and the agencies used by the elected majority to put its policies into place. The term 'Government' will be used synonymously with 'Executive'.

Parliament in the 1970's in Australia still bore the unmistakable features as Blackstone had described them in the late 18th century:

It hath sovereign and uncontrollable authority in making, confirming, enlarging, restraining, abrogating, repealing, reviving and expounding laws, concerning matters of all possible denominations ... It can ... do everything that is not naturally possible [*Blackstone's Commentaries* (1765-9), Bk.1, Ch.2].

State audit, according to Westminster constitutional *conventions*, has come to be accepted as the most important mechanism which enables Parliament to force the Executive to be financially accountable and thereby sustain the constitutional, although not necessarily the practical, pre-eminence of Parliament.

Few writers on politics and constitutional history would agree that the operation of the Westminster system of democracy has remained unchanged since the 19th century. It is, instead, well recognised that the model of governance under which we now operate in Australia is vastly different to that at the turn of the century when the *Audit Act of 1901* was passed and it is significantly different to the model of governance which applied to Australia up until the 1970's. A substantial volume of literature has addressed the implications of these political changes for the traditional model of governance perpetuated as Westminster democracy in Australia [Royal Commission on Australian Government Administration (RCAGA) 1976; Emy 1976; Butt 1967; Cole 1988b]. However, throughout this self examination state audit has largely remained forgotten.

All legislation is the product of a unique set of social and political forces. State audit is no different. State audit legislation has not arisen solely out of a constitutional or political desire in either British or Australian Westminster democracies to provide a public sector audit function which is entirely independent. Instead of state audit legislation reflecting purely constitutional needs it has been the result of a vortex of forces and influences which mask their intent under the convenient banner of

constitutional propriety. This thesis will show that the circumstances surrounding the passing of the *1866 Audit Act* produced a form of audit which was particularly suited to the set of forces pertaining at the time. Until the latter decades of the 20th century the core Westminster constitutional principles which evolved around the nucleus of Parliament in the 19th century in Britain remained remarkably stable as did the practice and mandate of state audit. A century after its 19th century development the same audit, with slight modifications, was expected to meet the requirements of very different combinations of social and political forces but still within the traditional Westminster structures of governance. Unlike audit in the private sector, state audit is conducted within a unique set of constitutional and institutional relationships and forms. State audit cannot operate successfully unless it is consistent with the constitutional relationships in which it is embedded for it is the constitutional, or more simply governance, form which determines the objectives of public sector audit. If state audit attempts to anticipate the form and demands of governance then it moves into a more contestable arena.

In Britain between the 1830's and the 1860's Westminster governance changed from what is referred to in this work as a Patronage Model, founded upon what Weber describes as 'tradition based authority', to an 'Administrative Model' of governance. Tradition based authority is derived from historical understandings or traditions which have acquired a respect and reverence because of their age and use well beyond living memory. Weber noted that "(d)omination ... rests ... upon piety for what actually, allegedly, or presumably has always existed" [Quoted in Mayer 1979, p.527]. In Gramsci's terminology this is domination by 'social hegemony' which arises from

the spontaneous consent given by the great masses of the population to the general direction imposed on social life by the dominant fundamental group: this consent is 'historically' caused by the prestige ... which the dominant group enjoys because of its position and function ... [quoted in Mayer 1979, p.524].

Administrative governance is characterised, in Weberian terms, by 'legal rational authority' which is derived from

a belief in the legality of enacted rules and the right of those elevated to authority under such rules to issue commands ... Submission under legal authority is based upon an impersonal bond to the generally defined and functional duty of office. The official duty ... is fixed by rationally established norms, enactments, decrees and regulations, in such a manner that the legitimacy of the authority becomes the legality of the general rule [Weber, quoted in Mayer 1979, p.527].

Each form of governance, and therefore authority, relies upon a congruent set of institutions and constitutional and administrative conventions to operate. To maintain their claims as the rightful rulers, as the form of governance shifted in the 19th century the power elites had to alter the basis of their legitimisation from traditional to legal forms, hence, the rise of a permanent bureaucracy in the service of the Executive in the middle decades of the 19th century and the development of modern state audit. Governance of an administrative form gave rise to a form of state audit which emphasised legality, regularity, form and economy of operation.

With a very formalised, objective mandate which kept the state auditor out of policy issues for nearly a century there was little pressure for the reform of state audit. In the 1970's this began to change as the form of governance entered a period of transformation from a 19th century 'administrative' form with its attendant formal concerns for financial stewardship, legality and regularity to one which valued good decision making in the use of public sector resources. In the 1970's tentative expressions of a managerial philosophy in the public service signalled the most significant changes to Australian governance since Federation. This was accompanied, however, by only a partial realignment of the role and the position of the state auditor with the new demands of the emerging 'managerial' form of governance. In the context of this thesis, in the period 1978-84 Australia's governance was in a state of transition

between administrative and managerial models of governance. Accordingly, when efficiency auditing was introduced in the seventies it was a response to a form of governance which was not well developed.

The difficulties experienced by the state auditor in implementing efficiency auditing between 1978-84 were largely due to a misalignment between audit technologies, concepts, principles and objectives and the governance model in which efficiency auditing was to operate. Both institutions and individuals found themselves forced to accept a mode of audit which could not easily or properly be accommodated during a period of governance transition. While the issue of congruence between governance and state audit is a pervading concern of this thesis, the consequences of a mismatch for state audit are its most arresting feature.

The overwhelming of the traditional public service culture by rival, prosaic, managerial philosophies in the eighties, which owed their attraction to the axioms of positive economics, threw state audit into a crisis of identity. It was forced to grapple with changed interpretations of accountability which could not be easily accommodated within traditional audit methodologies and technologies. More serious has been the underlying inconsistency of new forms of accountability demands on public service managers with traditionally accepted interpretations of the state auditor's independence. This conundrum is a key concern of Parts II and III of this thesis.

1.2.2 History as Narrative

Examination of a discourse inescapably demands that this be embedded in historical description. By definition, a discourse's predominant characteristic is its historical ancestry. Accounting history has been defined by the American Accounting Association's Committee on Accounting History as "the study of the evolution in accounting thought, practices and institutions in response to changes in the environment and societal needs" [1970, quoted in Napier 1989, p.237]. History

informs the present by illuminating the path to the present ie. the underlying forces and influences which produced the historical positions [Previtts, Parker and Coffman 1990, p.3; Napier 1989, p.239⁵]. Researchers in accounting (auditing) have been reminded that to "the extent that the social construction of reality is generally a long-term, gradual process, the research strategy should also focus on building a knowledge of context" [Covaleski and Dirsmith 1988, p.548]. Accounting (auditing) is not an ideologically sterile technology [Laughlin and Lowe 1990, p.16; Laughlin 1987, p.480; MacIntosh and Scapens 1990, p.468; Chua 1986; Hopwood 1987, p.213]: the framework of accounting is society and can only be understood in this framework [Dillard 1991, p.9]. The study of accounting history can be used

as a way of demonstrating that the legitimacy of a particular body of professional knowledge, its status as a naturalized and neutralized body of techniques, is a historically contingent state of affairs [Miller, Hopper and Laughlin 1991, p.395].

In a similar vein, Hopwood and Johnson have praised the emphasis of many historians on

taking temporal sequences seriously when attempting to understand the emergence of outcomes and events. They strive to ask questions of social structures and processes when they are understood to be situated concretely in time and space [1986, pp.38-39, quoted in Poullaos, 1992, chapter 2].

Given that auditing is now well accepted as a subset of accounting practice these descriptions are taken in this work as equally applicable to the study of state audit.

English and Guthrie have recently complained that most public sector research has treated audit in isolation from its sociopolitical context and called for future research to correct this neglect [1991, p.347]. Numerous other studies have also referred to the "web of social factors" in which the meanings of accounting have been imbedded and the way that these have been "seriously underresearched" [Laughlin 1990, pp.16,34,35;

5. See Arrington and Francis [1989] for more on the role of history in the process of social illumination.

Neimark and Tinker 1986; Burchell, Clubb and Hopwood 1985; Miller and O'Leary 1987]. This thesis has taken these injunctions as its motive force. Accordingly, it sets out using the two central episodes in state audit to build a history of the interplay between the social and political context of state audit and the requirements of Westminster constitutional theory to illustrate the role of the Executive in constructions and interpretations of state audit independence.

An historically informed study enables identification of the major players, forces and institutions as well as clarification of social and political events in which lie the seeds of a critical analysis. These elements, according to Megill, constitute a narrative form of history composed of:

action (carried out by an agent) and happening (an impingement on a character) ... , character (which acts) and setting (which impinges). Two of the elements (action and happening) occur; two (character and setting) simply are. The first two we call "events"; the last two, "existents" [Megill 1989, p.645].

In terms of the historiographical approaches described by Stone [1979], Megill [1989] and Porter [1981] this study can be described as narrative, if

(n)arrative is taken to mean the organisation of material in a chronologically sequential order and focussing of the content into a single coherent story, albeit with sub-plots [Stone 1979, p.3].

Porter believes that "traditional historical narratives are the most effective way to express our understanding of temporal events" [1981, p.ix]. Guthrie and Parker [1991] have called for accounting history researchers to reconsider the significant contributions which a narrative form of history can provide to reconstructing the socio-political context of accounting development. They argue that historical events cannot be understood as solitary objects or unique historical artefacts but only as part of an ongoing temporal process. Following Porter [1981], Guthrie and Parker state

that the best way to make sense of historical events is to examine the prior conditions from which they arose through the use of the technique of the narrative [p.5]. Polkinghorne favours the narrative for the way it orders individual events, thereby making them

comprehensible by identifying the whole to which they contribute. The ordering process operates by linking diverse happenings along a temporal dimension and by identifying the effect one event has on another, and it serves to cohere human actions and the events that affect human life into a temporary gestalt [1988, p18, quoted in Poullaos 1992, chapter 2].

Narrative has long been the traditional approach to history writing which, until recently, had fallen into disfavour in the face of aggressive universalist, so-called scientific historiographies [Burke 1991b, pp.14,15]. The privileging of these 'scientific' paths to history caused a narrowing of historical perspective and at the same time, laments Hamerow [1989], exclusion of historical writing's traditional audience of amateur enthusiasts through its arcane statistical and theoretical discourses.

Scientific or analytical histories had to have a central research problem, usually in the form of 'Why did X occur?', as opposed to research agendas seeking answers to 'What happened?'. Critics of the scientific approach have argued that what seems to have been forgotten is that when historians ask the question, for example, "Why did the 1789 French Revolution occur?" they are relying upon general acceptance that an event which could be described as the French Revolution did indeed occur and in 1789. Historians cannot begin to ask "Why *it* occurred" if there is no agreement about the temporal existence of "*it*". Accordingly, in the initial stages of historical investigation questions of *Why* may have to take second place to questions beginning with *What* [Megill 1989, p.648]. Historians do not

simply ... explain, as some contend. On the contrary, they first of all recount, in delight or fascination or horror or resignation. Upon recountings (descriptions), explanations arise [Megill 1989, p.653].

Thus, integral to the narrative in history is both description and analysis.

Analogously for this thesis, to ask the question 'Why has Australian state audit not been independent?' must be premised on acceptance by an interested audience that state audit was not independent. If, as this thesis argues, state audit has been widely accepted as being independent of the Executive the 'Why' question is immediately contentious and cannot be settled until agreement is reached about the subject of the question ie. the lack of independence. Explaining why state audit was not permitted to be independent is far less problematic than gaining recognition for the proposition, which is the endeavour of this work, that independence was not present in the period which encompasses the episodes which are the subject of this thesis.

Before historians can begin to ask and then to answer a significant question they must be aware of the need to *ask* the question. Often, therefore, the first task of the historian is to raise the consciousness of the observer, to part the veil of deceptive experience, to question comfortable conventions by "telling what was the case" [Megill 1989, p.647]. Fay's 'self estrangement theory' determines that most people are unaware of the dichotomous existence they experience; that "human existence is split into two spheres, the manifest/ordinary and the hidden/ extraordinary" [quoted in Dillard 1991, p.15]. The former is seen and sensed. The 'hidden' consists of those belief systems, conventions, social structures and practices which by their ancestry and diffusion remain unchallenged. These constitute the substance of a discourse. Kress [1985] defines discourses as "systematically-organised sets of statements which give expression to the meanings and values of an institution"⁶[p.6]. Discourses provide the means to construct a persuasive reality through their unobtrusive ability to

define, describe and delimit what it is possible to say and not possible to say (and by extension- what it is possible to do and not to do) with

6. This work is not a linguistic or semantic study of "discourse" which would be concerned with the architecture of a discourse. Instead, it is an examination of the discourse through empirical practice.

respect to the area of concern of that institution ... A discourse provides a set of possible statements about a given area, and organises and gives structure to the manner in which a particular topic, object, process is to be talked about. In that it provides descriptions, rules, permissions and prohibitions of social and individual actions [Kress 1985, pp.6-7 in Yeatman 1990, p.164].

An important aim of this work is to raise the level of consciousness in the debate surrounding state audit independence; to enlighten by providing alternative explanations for the observable and accepted. In terms of Dillard's definition, this thesis is radical structuralist to the extent that it is concerned with power and privilege which arise from these exploitive, hidden structures contained within the discourse of independence [1991, p.14]. In terms of Morgan's schema of 11 major metaphors relevant to accounting, this thesis sees the discourse of independence as stemming from "accounting as politics" and "accounting as mythology" [1988, p.481]. In the first instance, accounting and accounting systems are seen to "reflect and support the values and needs of specific interest groups" [p.481]. As mythology, "accounting systems provide a societal resource to be used in sustaining myths of rationality, and as a means of justifying rationalizing, and legitimising decisions that ultimately serve other individual and social ends" [p.481]. Both of these metaphors will be shown to be mutually consistent and mutually sustaining in the context of the discourse of state audit independence.

1.2.3 The Tools of Research Used in this Historically Informed Study

Generating the historical narrative of this study has relied upon naturalistic, qualitative methods [see Covalski and Dirsmith 1988, p.8]. These included a thorough search of archival material at various repositories in Britain and Australia and a study of the vast quantity of public sector reports, with their associated Minutes of Evidence, emanating from numerous public sector inquiries in Britain and Australia throughout the 19th and 20th centuries. Chapter 3, for example, is mainly based upon documents found at the Public Record Office at Kew in England, the British Museum and Gladstone's St. Daeniol's Library in Wales. Also, most sections of the thesis drew heavily from a

detailed examination of legislation relevant to state audit and the record of Parliamentary debates in Hansard.

While publicly available material provided the bulk of the foundations for this study it was only of limited assistance when it came time to follow the establishment of efficiency auditing in Australia in the late 1970's. For this, research had to rely upon interviews with people who had in some way played an active, key part in the establishment of efficiency auditing, usually at a very senior level, and internal documentation provided by sources outside the Australian Audit Office (AAO). The main purpose of these interviews was to fill out the organisational sociology of the AAO and to get behind the public face of the Executive. In light of the reluctance of the AAO to open any of their files to the researcher⁷, access to documents in the possession of past AAO members provided information on the internal, hidden workings on the AAO which proved crucial to the writing of Chapters 5 and 6. The secrecy which has surrounded the inner operations of state audit, indeed all government departments, in the absence of 'whistle-blowers' will continue to limit severely the public sector subjects open to academic study. This study is therefore unique in that for the first time a researcher has been able to map some of the tides of change occurring *within* the AAO.

1.3 THE EPISODIC NATURE OF THE STUDY

To accomplish its aims this study focuses on the two key periods in the development of Australian state audit, as illustrated in Figure 1.1 below. The first covers the period 1785-1866 and encompasses the extended lead-up to and the passing of the British

7. Throughout the research for this work the Australian Audit Office (AAO) has provided only a minimal level of assistance. No access has been allowed to the Office's records in deference to the secrecy provisions of the *Audit Act* [section 14(C), part (3)]. The AAO's reticence to open any of its files raises the suspicion that the secrecy provisions of the *Audit Act* can be used as a means to protect the Office from external examination. Reliance upon the need to maintain secrecy to preserve the national interest traditionally has been used by public sector administrations to keep out prying eyes. Open government has not been the preferred *modus operandi* of Australia's Westminster democracy [see for example the comments of Wilensky, *Sydney Morning Herald*, 13 June 1994].

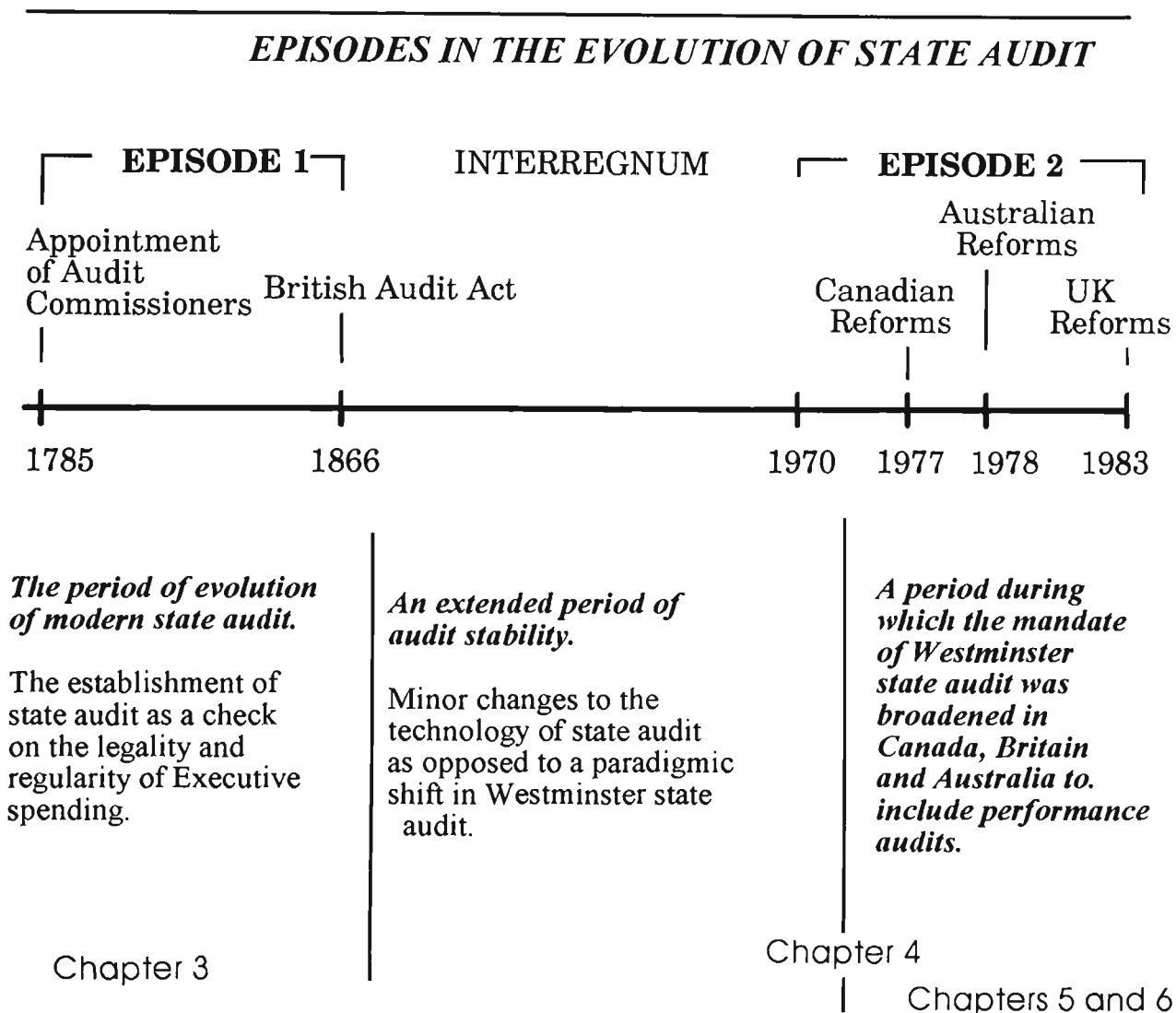
Audit Act of 1866 which formalised the office of the state auditor within the Westminster form of democracy and set the pattern of audit which was later adopted by the Australian Commonwealth Government after Federation. The *1866 Audit Act* was a belated response to constitutional apprehensions of the actions of the Executive. Even as late as the mid 19th century it was difficult for the English Parliament to forget the constitutional crises of the 17th century when the Executive, led by rogue monarchs, had sought to usurp the authority of Parliament. Parliament came away from these threats to its existence convinced that the best control over the Executive was achieved by holding the purse-strings of the nation's treasury. The *1866 Audit Act* was designed to reinforce this means of control by ensuring that the Executive had spent only as allowed by the Appropriation Acts [see Funnell 1989].

The second episode covers mainly the decade between 1974 and 1984 during which the audit mandate of the Australian state auditor expanded to include efficiency audits. Examination of efficiency auditing will be limited to this period. Auditor-General Steele Craik described efficiency auditing as "perhaps the single most important innovation to confront Auditors-General in Australia in this century" [1980b, p.19]. In 1978 a new audit division, which was to operate separately from the rest of the Australian Audit Office [AAO]⁸, was established and given sole responsibility for efficiency auditing. In 1984 this division, the Efficiency Audit Division [EAD] or Division E, was disbanded and the efficiency auditing responsibilities were assumed by the other operating divisions of the AAO. The EAD's active life was contained entirely within the time that the Fraser Coalition was in government, 1975 to 1983. As a consequence, the party-political context of efficiency auditing was uniform throughout its existence. The life of the EAD, therefore, provides a good opportunity to examine the relationship between the state auditor and the Executive. Shifts in the Executive's

8. A change in title for the Auditor-General's Office to the Australian Audit Office was approved in 1981. It was subsequently changed in 1989 to the Australian National Audit Office (ANAO). In this thesis, for ease of reference and where it would not otherwise confuse, the Office of the Auditor-General of the Commonwealth of Australia subsequently will be referred to as the AAO.

attitude towards efficiency auditing can be seen to be the reactions of the midwives of efficiency auditing and indications of a government which had changed its mind and wished to temper the behaviour of the offspring of its misplaced and ill conceived early confidence.

Figure 1.1



administrative form of governance there were no compelling reasons to question and revise the conventions and understandings which surrounded the office of the state auditor and which served each side of Parliament. The observation of the Joint Committee on Public Accounts (JCPA) in 1988 that there had never been a major review of Australian state audit underlines the neglect which the state auditor has experienced at the hands of the Executive over an extended period.

As part of the examination of the second episode of state audit, reforms in Britain and Canada are examined to provide a broader context in which to examine Australian changes and to establish a standard of audit reform with which to compare Australian state audit. Canadian reforms are particularly relevant because of Canada's close similarities with Australia's governance and state audit and because the Canadian reforms preceded the Australian reforms. Canada's experiences are also important for the radical improvements they brought to the independence of state audit.

A close examination of the events surrounding the two pinnacles of state audit in this study ie. the British *1866 Audit Act* and the 1978 efficiency audit amendments, highlights audit reform as the reaction to the convergence of a unique set of forces on each occasion and not the primacy of overarching Westminster constitutional demands. During the second episode the audit changes when implemented placed state audit under considerable stress as it sought to grapple with new audit challenges by extending existing responsibilities and implementing new audit technologies but without supporting changes to the form of governance. It is in periods of induced stress when state audit was under threat that the superstructure of conventions, myths and accommodations which shaped unseen the practice of state audit can be detected. It is not unusual for stress to illuminate the hitherto unsuspected or previously conjectured. It is the reactions of the state auditor under extreme stress which provide the most important conclusions from the early experience of efficiency auditing and

insights into the 'real' relationship between the state auditor, the Executive and Parliament.

While ever the Australian state auditor was occupied with matters of legality and regularity and made observations on economy, the existing form and extent of state audit independence did not present a significant problem for the Executive. This did not mean that the Executive was immune from criticism from the state auditor. Rather, the narrow focus of state audit meant that any criticism would be of very limited consequence and unlikely to overly embarrass the Executive. When the mandate of the state auditor was extended in 1978 to include efficiency auditing the nature of state audit's relationship with the Executive and therefore the quality of its independence which had lain relatively dormant since 1901⁹ rose to prominence as the state auditor began to move his questioning gaze to matters of policy implementation. The state auditor now had the legislated right to examine the Executive's ability to manage the resources entrusted to it by parliament. This moved the level of interest in the operation of the Executive's departments to top management levels and opened the state auditor to more frequent and virulent criticism, criticism which he¹⁰ found difficult to meet without retreating from his efficiency auditing mandate. The thesis argues that the movement of the state auditor back towards the relative safety and familiarity of traditional compliance audits was a consequence of the shallowness of state audit independence.

1.4 THE PLAN OF THE THESIS

The purpose of chapter 2 is to place state audit within the context of Westminster democracy and to examine various interpretations of independence which have been used in the discourse of state audit independence. It will be shown that these

⁹There have been investigations of the work of the Auditor-General, one being a consequence of financial control and audit deficiencies which were exposed during the First World War [Royal Commission on Navy and Defence Administration, 1918, *Commonwealth Parliamentary Papers*].

¹⁰. Throughout this thesis the masculine form of address will be used only because there have never been women appointed to the post of state auditor in Britain, Canada or Australia.

interpretations have supported a definition of independence which contradicted relevant legislation and audit practice. Particular emphasis is placed on the difference between independence for the *person* of the state auditor and independence for the *function* of state audit.

Chapter 3 is concerned with the British antecedents of Australian state audit which encompass the first significant episode in state audit; the evolution of traditional financial/compliance audit and attendant conceptions of state audit independence. Of particular concern in this chapter is explication of the motives which gave rise to the state audit reforms of the 19th century and the level of Executive control over state audit through provisions in the *1866 Audit Act* which gave the Treasury a central, powerful role in state audit. It is within the study of the forces shaping British state audit in the 19th century that lies an understanding of the form of independence which has characterised Australian state audit in the 20th century and the difficulties it later experienced with the introduction of efficiency auditing.

Chapter 4 introduces the second episode in the development of state audit. Attention is initially focussed on a study of traditional Westminster conventions of accountability. It then examines the new emerging economic, social and political context in the development of state audit in Australia, Britain and Canada in the 1970's and the implications of these for changing conceptions of public sector accountability. For comparative purposes the responses of the Westminster democracies of Canada and Britain to new accountability demands arising from the rise of a managerial form of governance are examined. Both these Westminster democracies couple an expanded audit mandate, to include efficiency auditing, with radical improvements in the independence of state audit.

Chapter 5 covers Australia's responses in the 1970's to the growing pressures on its traditional administrative form of governance. It examines the recommendations of the

RCAGA for reform of the Commonwealth public service and corresponding changes to the state auditor's mandate. In contradiction to the extensive Canadian and British reforms to state audit independence, as covered in Chapter 4, this chapter shows that the Fraser Government had no intention of emancipating state audit. Instead, giving the state auditor responsibility for efficiency auditing in the absence of reforms to the conditions impinging on the independence of the audit office was to place state audit in a very vulnerable, even impossible position. This chapter therefore highlights Executive resistance to enhancing independence and its intention to play a waiting game in the reform of state audit.

The purpose of Chapter 6 is to use the state auditor's problems with efficiency auditing to show the flaws in the independence of his Office. Executive and state audit reactions to efficiency auditing provide rare examples of the nature and strength of the discourse of independence which has regulated Australian state audit. It shows that Executive attempts to muzzle or hobble the state auditor can be covert, operating as they do through personal representations and public sector conventions or through more overt financial controls. Chapter 6 firstly traces the establishment of efficiency auditing in the AAO through the creation of the Efficiency Audit Division [EAD] in 1978. It then shows, on the basis of the state auditor's early difficulties with efficiency auditing, how the Executive through its departments was successful in forcing the state auditor to retreat from the intrusive investigations of efficiency auditing because he saw the pressures arising from within the Executive as compromising his independence. Restricting the number of efficiency audits provided the state auditor with the means to reduce his exposure to criticism and to regain some of his lost credibility.

Chapter 7 summarises the conclusions reached throughout the thesis and proposes a direction which state audit could follow into the 21st century. It argues that the requirements of a managerial public service culture make it inevitable that the greater managerial freedom given to all other departments of state cannot be withheld from the

state auditor much longer. Thus, paradoxically, no matter how reluctant they may be to give the state auditor "more teeth" the hand of the Executive will be forced by its own managerial reforms which have emphasised devolution of authority and greater financial autonomy for public sector agencies. The longer it delays with reforms to the independence of the state auditor and the more impatient he becomes with the handicaps which govern his operations the more obvious the self serving nature of the Executive's resistance will become and the less able will they be to sustain the discourse of independence.

CHAPTER 2

THE EXECUTIVE, STATE AUDIT AND INDEPENDENCE

We recognise that there is ambiguity about the present status of the Comptroller and Auditor General in that, although he is described in the Exchequer and Audit Department's Acts of 1866 and 1921 as acting 'on behalf of the House of Commons', he is nonetheless required ... to undertake certain activities on the instructions of the Treasury ... This situation is clearly unsatisfactory. That cardinal principle of independence is neither apparent nor, under existing statutory provisions, real. If the Comptroller and Auditor General and his staff are to carry out their functions on behalf of the House ... without any element of direction or control by the Executive, the existing statutes require amendment to provide safeguards against Executive control. [Great Britain, 1977-78, First Report of the Select Committee on Procedure, Vol.I, p.ciii.]

CHAPTER 2

THE EXECUTIVE, STATE AUDIT AND INDEPENDENCE

2.1 INTRODUCTION

The purposes of this chapter are: to clarify the role of state audit within Westminster governance, to investigate the importance of independence for state audit and to establish interpretations of independence usually associated with state audit. The bases upon which these meanings have been constructed will be examined to show how they have been used successfully to sustain an image of an unfettered, autonomous state audit function.

The need for a state auditor *and* for the state auditor to be independent are undisputed in the literature and in practice [Recommendations of the 9th INCOSAI 1977, 30 *Years of INCOSAI*, 1983, p.85; AAA 1973, p.13; Bishop, Senate debates, 17 June 1991, p.4686; ASCPA 1994]. To deny the relevance of independence to the office of the state auditor is to question the value and, as a consequence, the need for the very existence of audit. Pois in his study of the United States General Accounting Office (GAO), observed that:

there is such widespread acceptance of independence as a *sine qua non* of state audit that there seems to be little point to engage in the academic exercise of marshalling the arguments in support of this proposition [1981, p.70; for similar conclusions see also Kimball 1976, p.40].

Adoption of this position has tended to circumvent discussion of the genesis and the role of independence in state audit¹. By starting with acceptance of the importance of independence an implicit presumption is made that independence is not only inherent to state audit but that independence in this context has a clear meaning. This thesis will

1. Unless indicated otherwise the term state audit will refer to audit as practiced in Australia by the Commonwealth Auditor-General and in Britain by the Comptroller and Auditor General (C&AG). Throughout the discussion in this chapter reference will be made to the British ancestry of Australian state audit. It is left to Chapter 3 for a detailed history of British state audit in the 19th century.

show that the former is certainly not true and, as this chapter will demonstrate, the latter is also incorrect. To question the very existence as well as the nature and meaning of independence in state audit is to make a deep incision in the discourse which has developed around state audit independence from the middle decades of the 19th century in Britain. From this time until the latter decades of the 20th century, the state auditor in Britain and, in the 20th century, Australia has been consistently projected as carrying-out his work without any significant interference from the Executive, at any level.

Independence is a qualitative characteristic of audit. There are no universal criteria to detect its extent or even its presence. Any measurements of independence depend upon external referents or proxies which are designed to give it empirical verification. By itself independence has no meaning or significance. Independence has strong political dimensions, in the sense of being implicated in the contests of rival power groupings; it is of interest only because it can be seen to be of sectarian service to interested parties, certainly not to improve the precision and engineering of audit for its own sake. As a consequence, interpretations of audit independence have been the target of capture by powerful interest groups. The work of Cooper and Sherer [1984] has shown that accounting practices, of which auditing is a prominent component, can never be merely technical instruments. Rather, they need to be

recognised as being consistently partial; that the strategic outcomes of accounting practices consistently ... favour specific interests in society and disadvantage others [Quoted in Likierman, 1989, p.626].

Independence in the context of state audit has meant that which dominant interest groups have allowed it to mean, hence its nature as a discourse. There is no absolutist, apolitical meaning to independence. It is a socially constructed belief. In the case of state audit in Britain and Australia, it has been the Executive which has been extremely successful in creating and sustaining a discourse of independence, with attendant and

privileged interpretations of independence, which has been very much in the Executive's own best interests.

Independence only makes sense in relation to some objective to be achieved. Being restricted to this objective does not detract from independence, even though other objectives are precluded. It is not the goals which impose upon independence but attempts to deflect the state auditor in the pursuit of those stated goals. In the case of the state auditor, goals are derived from his mission as expressed in his enabling legislation. Within the parameters of this legislation the state auditor is expected by those not party to the audit to act independently in the achievement of the objectives stipulated. Independence can, therefore, be seen as a "relative and not an absolute quality" [Great Britain, 1981, Committee of Public Accounts, *Inquiry into the Role of the Comptroller and Auditor General*, Appendix V, p.12]. There must be some limits to the auditor's independence otherwise, believes Schandl, audit would "degenerate into the anarchy of autism or the autocracy of the ... auditor [1978, p.192; for similar judgements see Sutherland 1986, 1991].

Independence can be conceived as a relational state: one is independent from or in respect to something. For state audit the relational state is most often taken to be in reference to the Executive, although in Australia the state auditor has argued that he is also independent of Parliament [AAO, *Annual Report*, 1991-92. p.3]. According to the AAO's Auditing Standards

an essential element in the independence of the Auditor-General is the absence of any direction by the executive government in relation to the Auditor-General's performance of his or her mandate. In particular the Auditor-General should not carry out, modify or refrain from carrying out an audit, or suppress or modify audit findings at the direction of a minister of the government [1987, para.2.2.2.2].

Mosher recognises that independence in the context of state audit

concerns the freedom of an individual or agency from outside pressures or influence in the reaching of its decisions and carrying out its activities. In this sense, independence is nearly synonymous with objectivity, freedom from hierarchical, political, special interest, personal, or other partial bias [1978, p.235].

It would therefore follow that in order to ensure the state auditor's independence from Executive pressures that the state auditor be administratively and financially independent of the executive. This chapter will demonstrate that this has never been the case in Australia, and only recently in the Westminster democracies of Britain and Canada [see Chapter 4]. Instead, the executive has had recourse to numerous controls over the work of the state auditor. Most importantly, the office of the state auditor in Australia has never been financially independent of the Executive. Further, the state auditor in Australia has never enjoyed administrative control over his own Office, free of executive prying and final say. It was not the intention of the Australian *1901 Audit Act*² or its predecessor the 1866 *British Exchequer and Audit Departments Act* [1866 *Audit Act*] to create a state auditor who was beyond the influence of the Executive. This was not only inconsistent with the development of Westminster state audit from the mid 19th century, as Chapter 3 demonstrates, but was also antithetical to Executive interests.

Despite the very obvious extent of legislated Executive influence over state audit, the Executive was instrumental in the construction and promotion of a convincing and resilient discourse of state audit independence which was successful in embedding an interpretation of independence which has been at odds with the operational reality. This has led to multiple and often conflicting beliefs about what *is* and what *ought to be* the nature of independence in state audit³. Through a well managed discourse of independence the Executive was able to have very extensive controls over state audit

2. Or any subsequent amendments to the *Audit Act*

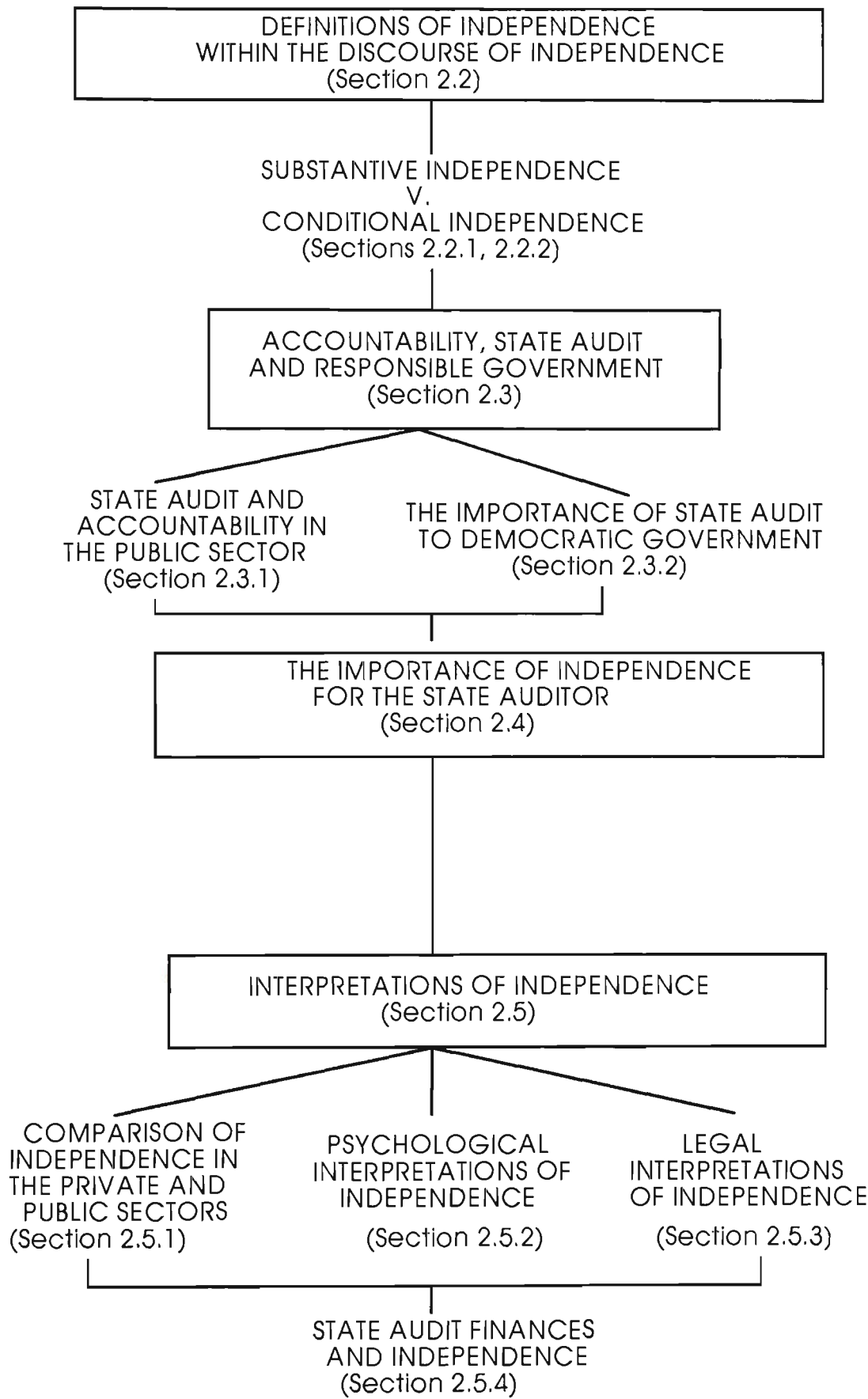
3. Chapter 6 will examine some of the problems which these differing interpretations of state audit independence caused at the time when efficiency auditing was introduced in Australia in the late 1970's.

accepted as benign and untainted by political interests, thereby maintaining an illusion of independence for state audit [see Transcript of interview of Auditor-General Taylor with Pru Goward, Radio 2CN, 14 September 1989]. The discourse of independence has overlain the imperfections of the state auditor's independence with institutionalised constitutional myths, rituals and belief systems. The British Committee of Public Accounts (PAC) in 1980, in comments equally pertinent to the Australian clone of British state audit, alluded to this persistent subterfuge and the dichotomy between actual or legislated independence for the *person* of the state auditor and beliefs about the independence of Office of state audit by concluding that "theoretically he (the state auditor) is not independent" [Report, p.3].

Section 2.2 following provides the definitions of independence which will be used in the remainder of this thesis. Section 2.3 establishes the importance which state audit has come to acquire in Westminster governance and the reasons why it is accepted as an essential element of Westminster constitutional theory. The chapter then examines reasons why independence is regarded as essential if state audit is to play the constitutional role it has been allotted. This is followed with a discussion of how independence has been interpreted and the sources of these interpretations. The chapter concludes by pointing out the flaws in these interpretations and how these have not stopped Executive governments using the image of state audit having *substantive independence* for their own purposes.

The structure of the chapter can be represented as follows:

CHAPTER 2 PLAN



2.2 DEFINITIONS OF INDEPENDENCE WITHIN THE DISCOURSE

2.2.1 *Substantive Independence v. Conditional Independence*

The discourse of state audit independence has generally been successful in masquerading a very limited form of independence as *substantive independence*. For the purposes of this work state audit will be defined as having *substantive independence* if: the Executive is not permitted to determine the organisation of the state audit office, including staffing levels and position categories; the Executive cannot influence the program and conduct of audits and the dismissal and appointment of the state auditor are beyond the sole discretion of the Executive. Independence of this form requires that the state auditor be staunchly independent in attitude and that his Office is not directly financially dependent on the Executive⁴. State audit in Australia has never experienced *substantive independence*. *Substantive independence* will also be affected by: the cooperation of auditees, parliamentary support, Executive reactions to unfavourable reports and the co-operation of central co-ordinating departments.

Belief in the *substantive independence* of state audit depends heavily on the *perception* that the state auditor is unfettered in the governing of his office and that there are no impediments to the state auditor's direct access to Parliament. *Substantive independence* cannot be conditional or of a variable quality which is contingent upon powers and events outside the state auditor's control. Thus, *substantive independence* is built upon a state of exclusion whereby potential sources of influence must be precluded for it to exist. To admit a degree of intervention or control is to abnegate control and to relinquish *substantive independence*. At the heart of *substantive independence*, therefore, is a system of beliefs about the standing of the state auditor's

4. Mautz and Sharaf in their classic study of audit referred to audit independence having three parts: programming independence, which provides freedom from control or undue influence in the selection of audit techniques; investigation independence, which gives the auditor the freedom to select audit targets and reporting independence, whereby the auditor is not inhibited in the reporting of the results of audits [see Knighton 1979, p.6].

authority as compared to potential sources of threat to his independence. It is a matter of relative power.

In order to enhance the appearance of *substantive independence*, intervention by the state auditor in the management of the auditee should be limited [AAO, *Auditing Standards*, s.2.2.2.1, 2.2.3.10]. This does not mean that the state auditor must maintain a position of strict isolation from the management of Executive agencies, although this has been a marked feature of state audit. It has also been the source of considerable conflict within the state auditor's office and between the state auditor and auditees as diverging interpretations of the role of state audit emerged in the late seventies⁵.

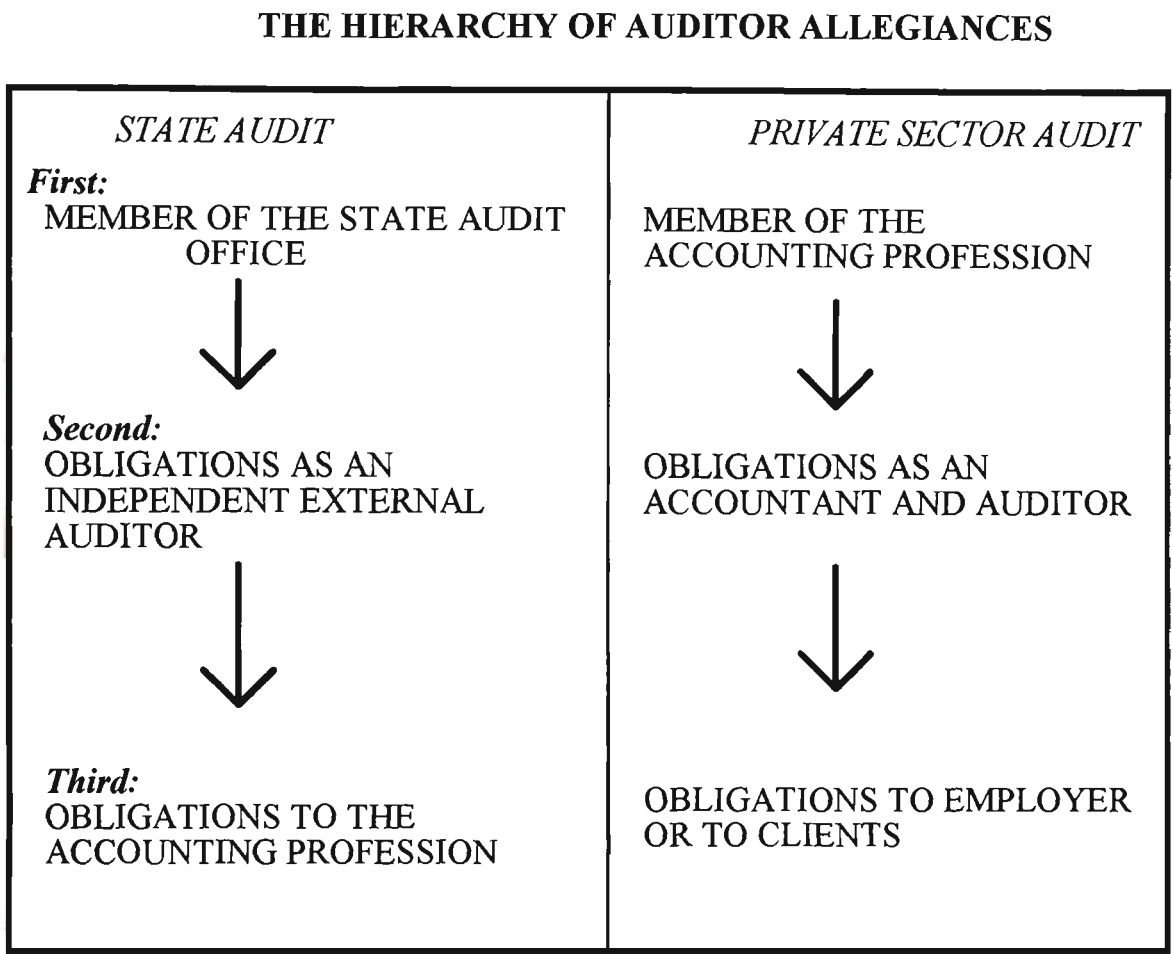
Other definitions of independence can be identified in the literature and are used in practice. Three types of independence can be distinguished: legal, fiscal and political. Legal independence is derived from relevant statutes and can only be interpreted in this context. It refers to provisions which are designed to identify and proscribe behaviour which could be construed as interfering with the duties of a public officer. Fiscal independence can be of two types. One describes relaxation of central financial controls by the Treasury while the second meaning refers to the ability of the auditor to generate and to retain revenues without going to the Treasury. Political independence is present if no overt or covert attempts are made by political actors to influence the work of the state auditor. *Substantive independence* will only be present if state audit independence encompasses all three of these types of independence.

Statements of auditing ethics of the professional accounting bodies, following Mautz and Sharaf [1961], refer to *professional independence*. This will exist when a member "at all times performs his work objectively and impartially and free from influence by any consideration which might appear to be in conflict with this requirement"

5. The subject of Chapters 5 and 6.

[ICAEW, 1988, *Guide to Professional Ethics*]. The emphasis in this description of independence is on the 'professional' and personal qualities of the private sector auditor which encourage the *appearance* of independence. In public sector auditing professional independence, in the sense of having regard for the obligations imposed as a member of a recognised profession, has not been the dominant factor in the work of the state auditor. Instead, constitutional interpretations of the allegiances of the state auditor and his auditing obligations have held priority [see AAO, *Auditing Standards* 1987, sections 1.4.7 and 2.1.2]. This, particularly prior to the late seventies, was both a reflection of the political environment in which the state auditor operated and also the low priority given to association with the accounting profession at large [AAO, 1974d and 1978a]. Auditor-General Steele Craik gave notice that, while standards of the professional bodies are relevant to the state auditor, the first allegiance of the officers of his department must be to the needs of Parliament, even if these caused a conflict with the demands of the profession [AAO, *Further Study for Officers in the Commonwealth Auditor-General's Office*, 1979a]. By the early eighties this attitude became increasingly outdated with the changes introduced in public sector accounting as a result of management improvement programs. As Figure 2.1 below demonstrates, the allegiances of the state auditor and private sector audit have been very differently directed.

Figure 2.1



State audit independence has always been, and continues to be, a form of *conditional independence* or *functional independence*, as Senator Walsh⁶ preferred to refer euphemistically to the Auditor-General's independence⁷ [Senate debates, 26 November 1987, pp.2479]. The state auditor is conditionally independent if he is capable of being free of detailed day-to-day direction in the determination and conduct of audit and if his appointment and dismissal are beyond the sole discretion of the Executive. In other words, the state auditor can be expected to be unhindered in carrying out the *functions* associated with audit. To operate under a conditional form of independence the state

6. Minister for Finance

7. The AAO in its *Auditing Standards* also refers to functional independence but does not define the term [1987, s.2.2.2.9]. This is the only instance of the use of the term in the *Standards*. In an earlier section of the *Standards* the AAO does note that "the Auditor-General would not look to the Parliament for specific guidance in the programming, planning and execution of audits" [s.2.2.1.3]. The reader is left to tie the term 'functional independence' with this definition of the state auditor's independence. Auditor-General Monaghan later uses the term in his submission to the JCPA *Inquiry into the AAO* in 1988 [Minutes of Evidence, p.535].

auditor will have limited control over his staffing levels and appointments and will not be financially autonomous.⁸ This is very much the form of independence which the AAO refers to in its *Auditing Standards* [see sections 2.2.1.2, 2.2.1.3, 2.2.2.2, 2.2.2.9]. Humphrey, the Victorian Auditor-General confirmed for the JCPA that he would object to

the executive government, having decided on an allocation of funds, decided that it was going to examine how I was going to spend it- in other words, try to interfere with the *process* of my allocation of those resources. That I would consider an infringement of my independence. So in terms of the aggregate allocation that goes to me I feel that I have to operate within reasonable bounds as judged by the rest of the public sector community [JCPA, 1988, *Inquiry into the AAO*, Minutes of Evidence, p.475].

Not only has the state auditor in Australia never been beyond the financial proscriptions of the Executive but the Executive has seen this freedom as inconsistent with its constitutional right to determine spending levels for all organisations requiring appropriations from Parliament [Walsh, Senate debates, 26 November 1987, pp.2479,2480]. Given the imperfect nature of conditional independence it has been crucial for acceptance by interested parties of a belief in state audit's independence that state audit be seen to maintain a stance of strict separation from auditees. In this way *conditional independence* can be promoted as *substantive independence* as part of a carefully maintained discourse.

2.2.2 Persistent Perceptions of State Audit Independence

The discourse of state audit independence began to take hold in Britain after the passing of the *1866 Audit Act*. Prior to this event there had been references to the need for the state auditor to be more independent but, as Chapter 3 will demonstrate, this had been met with paternalistic assurances from the Treasury ie. the Executive, that the state auditor had sufficient freedom or independence to carry out his functions

8. For an example see the *Report of the Victorian Commission of Audit*, May 1993, p.208.

as required by the legislation. Increasingly throughout the 19th century the relationship between the British Treasury and state audit became more parasitic to the advantage of the Treasury. The ascension of the Treasury as the central department of the Executive owed much to the work of the state auditor for, apart from audit legislation, the Treasury had very few formal means available to enforce its control over departments. Successive audit legislation, culminating in the *1866 Audit Act*, provided the Treasury with a watchdog and partner, in the form of the Comptroller and Auditor General (C&AG) and his department, in the enforcement of Treasury directions and the oversight of Executive finances. Without the assistance of the state auditor the Treasury's penetration into departmental administration would have been diminished and the Treasury's rise in the 19th century severely retarded. It was therefore incumbent on the Treasury, for it was to the Treasury's immediate and direct advantage, to build a belief in the *substantive independence* of the state auditor. This disguised the direct and indirect roles of the Treasury in state audit and therefore the impoverished nature of state audit's independence.

With the adoption by the Australian Commonwealth Government of the main tenets of British state audit in 1901 also came an implicit belief in a form of independence desirable for state audit and the sufficiency of the existing mechanisms to protect it from threat [Tickner, House of Representatives (HR) debates, 6 April 1989, p.1155; Senate debates, 6 April 1989, p.1109]⁹. This belief continues to the present day to frustrate the attainment of *substantive independence* for the Auditor-General. A comparison of the *Australian Audit Act 1901* [No.4 of 1901] and the *British Audit Act of 1866*, clearly reveals the debt that the Australian Act owed, and still owes, to the British 19th century legislation. The Australian and British state audit legislation are strikingly similar in: the duties required of the state auditor and his relationship to the

9. Senator Stone, formerly Secretary of the Treasury, referred to the *British Audit Act* prior to the audit reforms of 1983 as "virtually identical with our present system" [Senate debates, 1 November 1989]. Auditor-General Steele Craik noted that most of the features of his office compared very closely with that of his British counterparts [see Lusher, HR debates, 13 October 1981, p.1915].

central financial departments; the considerable role allowed the Treasury in state audit; the status and control of audit staff by the Executive and conditions governing the appointment and dismissal of the state auditor. In both audit jurisdictions the state auditor was to act as comptroller over the issue of state funds and also as auditor¹⁰.

Extension of the state auditor's mandate in the 1970's demonstrated the fragility of state audit independence and exposed the methods which had been used to bolster a manipulated form of state audit independence. At this time there was still a strong belief in the community that the independence of state audit, as interpreted by long established custom and with that which was thought to be legislative underpinning, was beyond reproach; that it bore more similarities with *substantive independence* than with conditional independence. The *Sun Herald* [Sydney] referred to the Auditor-General as running "possibly the most independent and uncompromising agency in the federal structure" which made him "a man feared by those at the top of the federal bureaucracy" [22 September 1977]. The *Adelaide Advertiser* described the Auditor-General as "an independent official whose integrity was beyond reproach" [10 October 1977]. Both of these expressions of confidence in the Auditor-General's independence betrayed implicit and therefore unexpressed interpretations of independence which substantially relied upon beliefs about legislated provisions. They also indicate the success of the Executive's endeavours in creating the appearance of an officer who goes about his work entirely free from Executive constraints or influence.

Community expectations of independence have been primarily conditioned by the *appearance* of state audit, in contradistinction to its substance, and the pious expressions of homage paid to it by the Parliament and, especially, by the Executive [for examples see HR debates: 13 October 1981, p.1914; 6 April 1989, p.1153 and 3 May 1989, p.1773]. Nuances in the meanings attributed to state audit independence in

10. Further comparisons will be made throughout Chapter 2.

apparently unreserved Executive expressions of support for state audit can easily be lost by the public:

it is common ground in this chamber that the independence of the Auditor-General is fundamental to his or her role and it cannot be compromised ... (T)here can be no question but that this Government will defend and preserve the Auditor-General's *functional* independence (emphasis added) [Walsh, Senate debates, 1 November 1989, p.2717; see also Button, Senate debates, 7 June 1989, p.3527].

A public ignorant for the most part of the very existence of state audit cannot be expected to appreciate the finer points of the nature of the relationship of the state auditor with the Executive and the Parliament [Nehl, HR debates, 6 April 1989, p.1158].

In order to appreciate the importance for the Executive of maintaining the illusion of substantive independence the next section places state audit within the framework and conventions of accountability of Westminster governance. It shows both the importance which state audit has acquired, the reasons for this and the way this importance is used by the Executive.

2.3 ACCOUNTABILITY, STATE AUDIT AND RESPONSIBLE GOVERNMENT

2.3.1 State Audit and Accountability in the Public Sector

State audit is to be found in all democratic countries¹¹; it is now widely accepted as an indispensable element of responsible and representative government [Short, Senate debates, 9 October 1991, p.1672]. The establishment of a state audit office is often taken as a sign of coming of age when newer democracies achieve their independence [Geist 1981b, p.4]. In most, if not all, audit jurisdictions both the symbolic and practical roles of state audit are implicated in its establishment. As symbol, the establishment of a state auditor projects an image of propriety and responsibility in government as well as the appearance of participatory government. In practice, where

11. It should be noted that state audit is not restricted to democracies.

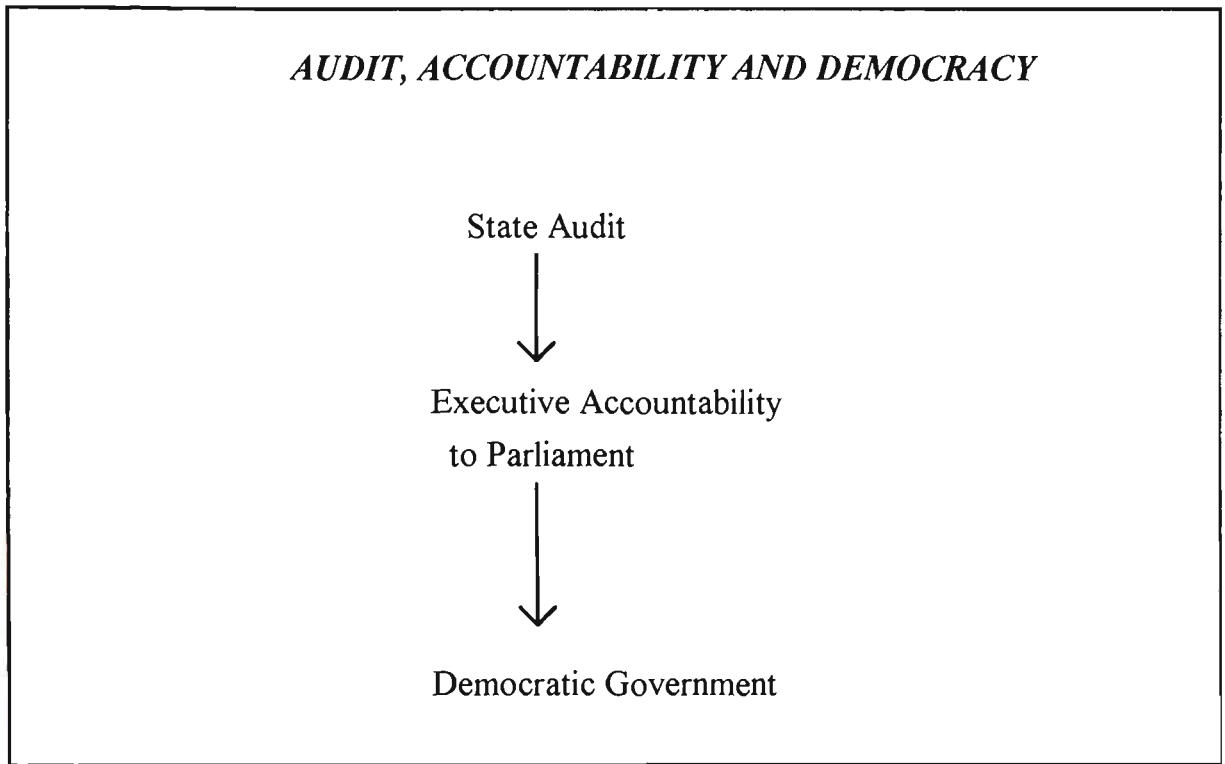
the Executive is supreme in the land, state audit can be a very powerful means of social surveillance and control.

Like all participants within the machinery of government of a Westminster democracy, the state auditor plays a role in the theatre which is known as responsible government¹². A system of governance is said to be responsible when the legislature has the power to make the Executive accountable to the legislature ie. the Executive is 'collectively responsible'. Holding the Executive answerable to the Parliament has evolved to become so important to Western democracy that "it is impossible to imagine how a responsible democratic polity could survive without the principle and some tools of accountability" [Mosher 1978, p.234; see also Chubb 1952, p.19]. The Australian Auditor-General, John Taylor, described disclosure and accountability to the Parliament as "the cornerstone of the Westminster system" [Paper presented for the Senate, 28 August 1989, p.2]. Government and Opposition parties have expressed their belief that both accountability and disclosure are essential if

the Westminster system is to survive ... They both have an integral role in guaranteeing that the public accountability obligations of government departments and instrumentalities are fully met. The importance of this function of democracy should not and cannot be overlooked [Jones, HR debates, 15 November 1979, p.3131; Watson, Senate debates, 10 December 1987, p.2908; see also Short, Senate debates, 18 October 1990, p.3405].

Figure 2.2 summarises the relationship between disclosure and democratic government.

12. See Connolly [1980] for a description of Parliament as an arena of "thesbian performances" [p.14].

Figure 2.2

The ability of the Executive to satisfy the accountability demands of the legislature will determine, in theory at least, whether the present Executive will remain as the government [Marshall and Moodie 1971, p.55, as referred to in Sutherland 1991]¹³. The requirement that only members of the legislature can form the Executive was thought to be a sufficient constitutional safeguard to ensure that the legislature would always be able to hold the Executive accountable through the Ministers [Earl Grey 1858, in Chester 1981, p.81; Management Advisory Board, *Accountability* 1991, p.2]. It was this "nearly complete fusion, of the executive and legislative powers" which was, according to Bagehot, "the efficient secret of the English Constitution" [1963, p.20]. To Blackstone it was an ideal form of governance for it ensured that

all the parts of it form a mutual check upon each other. In the legislature, the people are a check upon the nobility, and the nobility a

13. Spann [1984, p.494] and Thynne and Goldring [1987] point out that responsibility is a broader, more encompassing term than accountability. Thynne and Goldring believe that responsibility encompasses the following meanings: task, appropriateness, accountability, blame and cause [p.7].

check upon the people; by the mutual privilege of rejecting what the other has resolved: while the king is a check upon both, which preserves the executive power from encroachments. And this very executive power is again checked and kept within the bounds by the two houses... Thus every branch of our civil polity supports and is supported, regulates and is regulated, by the rest [Quoted in Chester 1981, p.1].

Although a strict interpretation of ministerial responsibility has been recognised for some time as no longer appropriate for complex forms of governance and administration [see Chapters 4 and 5], the primacy of Executive accountability first to the legislature and through the legislature to the electorate is still regarded as the key to democratic government [Smith 1971, p.26; Watson, Senate debates, 10 December 1987, p.2908 and 7 May 1987, p.2487; Management Advisory Board, *Accountability*, 1991, p.2; Hague, Makenzie and Burkner 1975 in Stewart 1984, p.20]. The working-out of this in practice, however, has been shown to be problematic. Smith [1971] refers to a "crisis of authority" in Westminster democracies as a consequence of a burgeoning state bureaucracy which has accompanied the huge expansion in government responsibilities¹⁴ and the proliferation of different forms of executive intervention this century, which he sees as increasingly escaping accountability to Parliament [1971, p.27; see also Hawker 1979, p.1; Watson, Senate debates, 7 June 1989, p.3523]. The creativity of the Executive in devising new agency forms has been extensively criticised as these new off-budget organisations seem to be structured to enable the Executive to escape traditional forms of accountability through the state auditor to Parliament [HR debates, 11 May 1987, p.2933; Watson, Senate debates, 7 May 1987, p.2487; Senator Bishop, JCPA, 1988, *Inquiry into the AAO*, Minutes of Evidence, p.559]. This has led to a decline in confidence in traditional forms and mechanisms of accountability and the introduction of alternative forms of accountability.

14. Weber was sufficiently prescient to predict that "in the modern state the actual ruler is ... the bureaucracy, since power is exercised ... through the routines of administration" [Quoted in Hawker 1979, p.1].

There are numerous means at the disposal of Parliament which it can use to exercise its constitutional right to make the Executive accountable. These have included Royal Commissions, Question Time in Parliament and inquiries by parliamentary committees, most notably the JCPA. Other accountability mechanisms, including the hawkish scrutiny of the press which, although not carried out directly on behalf of Parliament nevertheless provide Parliament with access to information about the operation of the Executive. Amongst these are the office of the Ombudsman (established 1977), the Administrative Appeals Tribunal (established 1975), Freedom of Information Legislation and Interdepartmental Committees. Many of these external accountability mechanisms are very recent responses to demands by the electorate for more information surrounding Executive decision making and for evidence that the Executive is using the resources entrusted to it in an efficient and effective way. At issue with these reforms is more than financial accountability.

The introduction of agencies outside the Parliament which are responsible for monitoring and enforcing Executive accountability has significant implications for the constitutional role of Parliament. Any extra-parliamentary body composed of non-elected, unrepresentative members who are entrusted with a function previously reserved for Parliament results in a reduction of the powers of Parliament to the benefit of the Executive [Cronin 1990, p.11; Bishop, Senate debates, 6 April 1989, p.1110]. These bodies, unlike the state auditor and other parliamentary bodies, do not report directly to the Parliament. They are not agents of Parliament but appointees of the Executive.

A significant proportion of results of reviews of Executive performance are not made available to Parliament. Thus Joint Management Reviews by the Public Service Board (PSB), budget orientated reviews by the Department of Finance (DOF), departmental initiated management reviews, the findings of internal audit and the Program Policy Reviews of the Department of Prime Minister and Cabinet (PM&C) have been

regarded by the Executive as not the legitimate concern of Parliament. On the contrary, it is argued that should the Executive make the findings of these Executive initiated reviews available to Parliament it would defeat the purpose of the reviews which is to facilitate improved public sector management. By ensuring the confidentiality and restricted access to results of these enquiries it is argued that the management of Executive agencies will not feel as threatened and may come to see the reviews as motivated by a desire to assist managers and not to expose them to public criticism and opprobrium. Further, the Executive sees that it is its right to implement its policies as it sees most appropriate without the interference of Parliament in what are substantially day-to-day administrative decisions.

Proliferation of accountability mechanisms has meant that state audit is now one component in enacting accountability. The implications for state audit of the belligerent wielding by the Executive of its supremacy was of considerable concern to some members of the JCPA in 1988:

where the Government is in clear and obvious total control of the Parliament, is the responsibility of the Audit Office to the Parliament, and not to the Government, dependent upon legislative constraints on the extent to which the Government can exercise *overt or covert* control over the Audit Office? [JCPA, *Inquiry into the AAO*, Minutes of Evidence, p.586].

With review mechanisms weighted so heavily in favour of the Executive, Parliament's access to the services of a state audit function which has *substantive independence* from the Executive has even greater importance. Non-government Members are prone to see the state auditor as their only reliable ally in making the Executive accountable [Stone, Senate debates, 10 December 1987, p.2912].

At the heart of public sector accountability is a

responsible person or institution ... on whom is laid a task, function or role to perform, together with the capability to carry it out. There is also conferred some discretion and the liability to account for the performance of the duty, which should induce the person or institution to act with concern for the consequences of the decisions made and, in so deciding, to act in conformity with the wishes and needs of those who conferred the authority and receive the account [Jones 1977, quoted in Stewart 1984, p.15; see also Management Advisory Board of the Australian Government, *Accountability*, 1991, p.ix].

In the last resort "if the system of auditing by the Auditor-General breaks-down, the system of accountability breaks down" [Bishop, Senate debates, 17 June 1987, p.4686]. On a later occasion Senator Bishop stressed that "we cannot afford, in a democracy, ... to allow scrutiny to become a second-class function of the Parliament" [Senate debates, 10 December 1987, p.2911].

Understanding the motives for promoting an audit function in the public sector provides the key to understanding the importance which has come to be attached to having a state auditor who is perceived to be independent of the Executive. The general objective of audit as defined by the American Accounting Association (AAA) is:

a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between the assertions and established criteria and communicating the results to interested users [Report of the Auditing Concepts Committee, *Statement of Basic Auditing Concepts*, 1973, p.2].

This definition, which is representative of numerous others, is predicated on the monitoring of performance by a third, disinterested party and the communication of the findings to a principal. It is the state auditor's primary role to ensure that the Executive keeps Parliament informed of executive spending and revenue raising [AAO, *Auditing Standards*, 1987, s.1.2.1.1]. To fulfil this role the state auditor is required to act as the financial policeman of Parliament, detecting recalcitrant Executive behaviour and thereby reinforcing the wishes of Parliament. To Normanton, so important has this role of state audit become that state audit is "an activity sui generis, not merely a part of the

financial control system, but an important element of the constitution itself" [1966, xvi]¹⁵. It is the overriding constitutional and political context of state audit which sets it apart from private sector audit.

The Canadian Royal Commission on Financial Management and Accountability, the Lambert Commission referred to fiscal accountability as

the essence of our democratic form of government ... Accountability is the fundamental prerequisite for preventing the abuse of delegated power and for ensuring, instead, that power is directed to the achievement of broadly accepted national goals with the greatest degree of efficiency, effectiveness, probity, and prudence [Quoted in Cousins 1988, p.89].

At its 1985 conference the Asian Association of Supreme Audit Institutions (ASOSAI) defined accountability in the public sector as the

obligations of persons/authorities entrusted with public resources to report on the management of such resources and be answerable for the fiscal, managerial and programme responsibilities that are conferred [*Tokyo Declaration of Guidelines of Public Accountability*; see also Sharkansky 1975, p.284].

This definition indicates that accountability in the public sector is far more complex than that which pertains in the private sector. Various authors refer to a hierarchy or 'ladder' of accountability in the public sector [Cutt 1977a; Stewart 1984, pp.17-18]. At the lower extreme is the fiscal accountability referred to by ASOSAI which encompasses the, primarily, constitutionally important features of the legality and probity of expenditures. This can also encompass process accountability or regularity which checks that the directions of central co-ordinating authorities have been followed.

15. After the constitutional crises of the 17th centuries, when the authority and very existence of Parliament were threatened, accountability of the Executive came to be interpreted as demonstrating to Parliament that the money which it had permitted the Executive to raise had been spent as appropriated by Parliament. The Executive was accountable for its stewardship of public funds only in a fiduciary sense: spend as approved without extravagance or waste.

On a higher level of accountability is management or performance accountability which is directed to the efficiency with which resources are used and the achievement of program goals. At the apex of this accountability hierarchy is policy accountability whereby accountability is exercised on the appropriateness, equity and feasibility of Executive policies. Policy or effectiveness accountability in Westminster domains has been reserved for the Executive's own peak policy making bodies and thus placed beyond external scrutiny. Movement through the hierarchy reflects broader concerns and a change from accountability according to clearly set standards, whether they be legislative requirements such as in the Appropriation Acts or Treasury accounting directions, to accountability which relies on judgement [Stewart 1984, p.18]. The GAO refers to the levels in the hierarchy of public sector accountability, in ascending order of complexity and comprehensiveness, as:

Efficiency I: fiscal accountability

Efficiency II: efficiency accountability

Efficiency III: effectiveness accountability [see Cutt 1977a, p.334]

At the end points of the scale of accountability the basis of accountability is clear. It is in the middle range of management accountability where assessment begins to move from the hard standards of processes and procedures to evaluating the consequences of these that the most serious difficulties arise for agencies responsible for enforcing accountability [see Cutt 1982, p.312].

Moving up the "ladder" of accountability fiscal accounts become less relevant as a means of ensuring accountability. Instead,

other languages are also required ... for performance accountability output data must be added to financial data; for programme accountability the language of objectives becomes critical; and for policy accountability, a range of languages becomes important [Stewart 1984, p.31].

The accountability supervised by the state auditor has traditionally been directed to fiscal accountability and has been exclusively concerned with the language of financial accounts. As this work will demonstrate, movement of the state auditor into middle range accountability, and therefore into the use of new languages of accountability, has brought him into the realms of contentious and contested judgement. Smith [1971] accuses governments in Western democracies of perpetuating the "polite fiction" that financial accountability can still be ensured under traditional constitutional and institutional arrangements, despite these significant changes. Emphasis in exercising accountability continues to select readily quantifiable aspects of performance. Fiscal and process accountability, checks that procedures and directions have been followed, have been given preeminence over, and have become surrogates for, the more difficult aspects of accountability, namely program effectiveness and administrative efficiency.

2.3.2 The Monitoring and Signalling Roles of State Audit

It was established above that the importance of state audit as the body mandated to ensure the fiscal accountability of democratically elected government is now taken as axiomatic, indeed as its crucial feature [see observations of the United Nations Expert Group, quoted in Monaghan 1985a, pp.12-13; Mosher 1978, p.234; Hewson, HR debates, 10 December 1987, p.3271; Nehl, Senate debates, 6 April 1989, p.1158]. The state auditor is one link in a chain of accountability which culminates in Parliament [JCPA, 1988, Minutes of evidence, Taylor, *Inquiry into the AAO*, p.668]. The Auditor-General in reply to Report 296 of the JCPA pointed out that

(t)he requirement for officials to be held accountable to the Parliament for the use of public resources with which they have been entrusted is a foundation for citizens' trust in government. The role of the Auditor-General is to facilitate that accountability by providing impartial and objective reports on the stewardship of performance of officials. Central to the value of assurances provided by the Auditor-General is his independence in relation to *both the Parliament and the Executive* Accountability to the elected representatives is the cornerstone of democracy and the Westminster system of government ... The reality of

parliamentary accountability is expressed ultimately through the ballot box, and is essential to healthy democratic government (emphasis added) [1989, pp.7-8].

This monitoring role of state audit derives from the agent-principal relationships which exist in the public sector. Politicians, in the form of Parliament, are acting as agents of the electorate. Unlike in Ancient Greece where each citizen was able to rule for a day, in a populous and complex nation it is necessary for the citizens to be represented by a select few: representative democracy instead of direct democracy. The elected legislative priesthood, as agents with a derived and conditional authority, are answerable to the electorate for the stewardship of the resources which are given, involuntarily, into their control. Within the bounds of this relationship there arise numerous opportunities for a conflict of interest between the Executive agent (the Government) and its constitutional principal (the Parliament). The electorate is aware of the temptations which exist for their agents to use their conferred authority to benefit themselves at the expense of the principals. This could take the form of direct financial benefits which the politician might receive and which he/she seeks to hide from the electorate or the enriching of the agent's life and status by taking advantage of numerous and attractive perquisites available to people in positions of substantial power and influence. In the case of excessive benefits taken by the agent this will add to the financial burdens of the tax payer, something which they will strenuously seek to avoid or minimise. The aversion of the ultimate principals (the electorate) to more costs explains the Executive's tendency towards financial subterfuge and an antipathy to disclosure.

As it would be impossible for all constituents directly to watch over the actions of politicians they assign this task to monitoring bodies [see section 2.3.1], including the state auditor. Thus, state audit came to be seen as an essential ingredient of Westminster democracies because of the opportunities for the Executive to use its conferred powers and responsibilities in its own interests at the expense of the

Parliament, and therefore the general population, and because the electorate is remote from the events which are recorded in the Executive's financial statements¹⁶. By monitoring the actions of the Executive, as reported in the financial statements of Executive agencies, the auditor acts as a control over the *quality* of information reported to Parliament, as opposed to being a control *over* the Executive. The state auditor has no executive powers and therefore cannot control the Executive in the sense of directing its actions and policies. Only Parliament both directly and through the findings of its committees has the statutory ability to affect the work of the Executive. The potency of this ability, of course, will depend on the attitude and strength of the Executive. At its very basic level audit legislation has given the state auditor the means to force the Executive to conform to agreed norms of reporting and accountability which reflect the needs of the users of the financial statements. State audit assists in making the actions and finances of the Executive visible to Parliament and to the public. It is this visibility which allows governments to be called to account.

There is a necessary cost-benefit trade-off in the state auditor overseeing the activities of elected officials and their nominees. Monitoring is not a cost free exercise, with the result that constituents must compromise on the effectiveness of the state audit function. Within a Westminster democracy limits will also be placed upon the role of the state auditor as a result of the constitutional relationship which has evolved between the Executive and the Legislature. The state auditor is only *indirectly* an agent of the citizens; he is first and foremost an agent of Parliament and is directly answerable to Parliament. The reality is that the Executive in Australia dominates the lower chamber of Parliament and has always controlled the resources available to state audit. Thus the work of the state auditor can be significantly influenced by the wishes of the Executive and the monitoring function of state audit prejudiced.

16. Remoteness can be engendered through geographical, legal, institutional and constitutional barriers [see AAA 1973, pp.9-10].

Despite the centrality state audit has assumed in Australia's form of democratic governance it has been observed that most Australians are not only unsure of the role which state audit performs but are probably only aware of its existence when reminded by sensationalised reports in the media [Nehl, Senate debates, 6 April 1989, p.1158]¹⁷. Thus the state auditor cannot depend upon a vigilant and committed electorate to guard his position and authority. The electorate, like many of its representatives in Parliament [Dobie, HR debates, 19 May 1976, p.2220], is difficult to arouse and to motivate to take an interest in arcane financial matters. The pool of potential critics of the Executive's relationship with the state auditor is therefore likely to be very small; limited to a few interested Members and the intermittent gaze of the press.

To carry out its prime responsibility of monitoring the legality and regularity of Executive expenditures on behalf of Parliament [AAO, *Auditing Standards*, 1987, s.1.3.5(iii)(a)], the state auditor compares actual Executive expenditures, as found in the annual appropriation accounts, against the annual expenditure estimates submitted to and approved by Parliament. The original British *1866 Audit Act* described the process as one whereby the state auditor would verify that the

money expended has been applied to the purpose or purposes for which the grants made by Parliament were intended to provide and that the expenditure conforms to the authority which governs it [11 & 12 Geo.5 c.52, s.1; also see 29 & 30 Vict. c.39, s.21].

The Australian audit legislation similarly places upon the state auditor the duty to

- (a) ascertain whether the moneys shown therein (the accounts and records) to have been disbursed were lawfully available for expenditure in respect of the service or purpose to which they have been applied or charged; and
- (b) ascertain whether the provisions of the Constitution and of this and any other Act and the regulations relating to public moneys have been

17. The dismissal of Ros Kelly, Minister for Sport and Recreation in 1994, is a particularly prominent example of the profile which state audit sometimes assumes [*Canberra Times*, 3 February 1994; *The Bulletin*, 11 January 1994; *Telegraph Mirror*, 7 February 1994].

in all respects complied with [1901 *Audit Act*, No.4 of 1901, sections 41 (f) and (g); 1901 *Audit Act* as at July 1980, section 41(1)]¹⁸

The original *Audit Act* [No.4 of 1901] required in addition to the above checks very detailed scrutiny of the accounting records and authorisations for expenditure from public accounts [section 41, (a) to (e)]¹⁹. The form of audit set down in section 41 is referred to as a legislative, compliance or appropriation audit because it is undertaken primarily on behalf of the Parliament against parliamentary appropriations. The audit was one of accounting accuracy, authorisation and legality. Normanton refers to this type of audit as "above all a major constitutional guarantee essential for a healthy relationship between the administrative and political powers, between executives and lawmakers" [1966, p.73]²⁰. The UK Government Green Paper in 1978 also emphasised the undiminished significance of audits of legality, recommending that they "must remain the foundation of the Comptroller and Auditor-General's work" [Great Britain, 1980, p.xi; see also INCOSAI, 1965, *30 Years of INCOSAI*, p.54].

In addition to the appropriation audit, the state auditor has made judgements on the accuracy and appropriateness of the Executive's financial controls and accounting systems and verified that transactions were authorised according to executive ie Treasury, guidelines [1866 *Audit Act*: s.23,25,33; 1901 *Audit Act*²¹: s.40, 41, 41D, 45; JCPA, 1988, *Inquiry into the AAO*, Minutes of Evidence, Williams, p.380]. This part

18. Section 41 was the only section in the entire *Audit Act* 1901 which specified the nature of the audit to be conducted by the Auditor-General. The remainder of the Act covered: the appointment, remuneration and powers of the Auditor-General [sections 2 to 15]; the responsibilities and duties of public officers designated as public accountants ie. those who administered a public bank account [sections 16 to 30]; procedures and responsibilities surrounding the payment of public money; the duties of the Auditor-General and those public officers required to provide accounts of their use and safe keeping of public money [sections 38-40, 42-48]; the reporting obligations of the Treasury and the Auditor-General [sections 49-54].

19. The requirement that the state auditor carry out a detailed transaction check was relaxed in 1920 [No.23 of 1920, section 6].

20. For more on the constitutional ancestry of appropriation audits see Funnell 1989.

21. Unless stated otherwise the *Audit Act* as amended to 1980 will be the Act referred to throughout this work in relation to Australian state audit.

of the state auditor's work can be described as an Executive or *regularity audit*²² because it is conducted for the Executive. It is this part of the state auditor's role which particularly provided the emerging Treasury in 19th century Britain with a means by which it could ensure that its authority in departmental administration was enforced.

Attesting to the quality of the information in the accounting reports has been the most obvious and traditional role of state audit in Westminster democracies²³. During the second reading of the Audit Bill in 1901 Treasurer Turner emphasised that the Bill would

provide the best checks we can get in regard to all dealings with public money, and especially in regard to disbursements, in order to prevent frauds and defalcations ... [HR debates, 19 June 1901, p.1248].

These narrow, fiduciary aims of state audit were consistent with the form of governance at the time which did not have as its central concern the good management of public funds. They also very effectively circumscribed the auditor's mandate to relatively contentious-free concerns. Auditor-General Monaghan referred to the period dominated by financial audits as the "days when you could *clamp* the Auditor-General

22. In its *Auditing Standards* the AAO has preferred to designate only two categories of audit: regularity and performance auditing. In terms of the meanings given to regularity and legality or appropriation auditing in the text above, the AAO groups these concerns of audit under regularity auditing:

- (i) attestation of financial accountability of the Commonwealth administration, involving examination and evaluation of accounting records of departments of State and expression of opinions on financial statements prepared by the Minister for Finance;
- (ii) attestation of financial accountability of other Commonwealth bodies ...
- (iii) other regularity audits of departments and other bodies involving:
 - (a) examination of financial systems and transactions, including an evaluation of compliance with applicable statutes and regulations ...
 - (c) examination of the probity and propriety of decisions taken with respect to all aspects of the administration of the auditee ... [1987, s.1.3.5]

Attestation can be defined as "a communicated statement of opinion (judgment), based upon convincing evidence, by an independent, competent, authoritative person, concerning the degree of correspondence in all material aspects of accounting information communicated by an entity (individual, firm or governmental unit) with established criteria" [AAA 1973, p.6].

23. It will be suggested later that this role, while comfortable and less threatening to the Executive, is increasingly out of place, although not entirely inconsistent, with the new form of governance which came towards maturity in the 1970's in most Westminster democracies.

into doing no more than checking the books" (emphasis added) [JCPA, 1988, *Inquiry into the AAO*, Minutes of Evidence, p.429].

A monitoring role for the state auditor emphasises the utilitarian aspect of audit. In contrast, state audit also provides the means by which the Executive can *signal* to interest groups, which may form into powerful coalitions, that it continues to be a worthwhile repository of their trust and protector of their interests. It is state audit's monitoring role, however, which has been given prominence, thereby disguising state audit's less obvious use as a way to persuade and instil confidence. The monitoring and signalling functions of state audit are not mutually exclusive, although the emphasis and importance given to each may differ between interest groups and over time. According to the view of state audit as a signalling device, state audit is a weapon of political persuasion: a means by which the incumbent powers seek to exclude contenders from government by using state audit to buttress their own position. Macintosh would describe this as a 'non-rational' role for auditing [in Cooper and Hopper 1990, p.153]. In this role, state audit can be used to signal the financial competence and rectitude of the Executive and thereby to reassure the electorate that their confidence is well placed. All social institutions depend for long term viability on the acceptance of their legitimacy by those who have the power of sanction. In democracies it is the electoral process which bestows ultimate legitimacy. It is up to those seeking to have this legitimacy conferred upon them to gain the confidence of those who sanction and bestow the legitimacy of power. Use of state audit in the process of signalling is a means of legitimation, a means to enhance the credibility of the Executive, through the use of symbolic referents: complimentary audit reports equal competent and worthy government [see for example AAO, *Auditing Standards* 1987, s.1.4.1; *Report of the Victorian Commission of Audit*, May 1993, p.208; Auditor-General Taylor, Paper presented for the Senate, 28 August 1989]. The Executive requires predominantly unqualified reports from the state auditor to retain the confidence of both Parliament and the electorate. The auditor's reports are needed

to give the 'right signals'. Independent verification that the financial statements of the Executive's agencies meet accepted norms of presentation and authenticity add to the credibility of the statements and by logical extension to the credibility of the Executive and their performance claims [see comments of Tickner, HR debates, 6 April 1989, p.1153]. This becomes an especially important function of audit in difficult economic times when the government's record of economic management assumes prominence for the electorate. Unfavourable report cards from the state auditor are therefore more likely to be contested [see chapter 6]. In these circumstances, the position and person of the state auditor has also been shown not to be beyond the Executive's wrath [Dawkins²⁴, HR debates, 26 May, 1993].

Richardson has identified two forms of legitimation: symbolic and substantive [1985, p.142]. Symbolic legitimation relies upon acts used as symbols of some underlying value-standards. These acts are interpreted by coding rules which allow the expression of value-standards. Interpretive coding schema are situated in particular social contexts into which the interpreted acts are integrated. Legitimation results in the acts being interpreted as consistent with the social context and becoming an integral feature of that context. Thus symbolic legitimation is dependent on the context of the acts. The key ingredient of symbolic legitimation is a *belief* in the legitimacy of an order or institution which does not depend for its validity on an absolute, and non-reflexive interpretation [Richardson 1985, p.143]. This is the form of legitimation which state audit in the control of the Executive encourages.

Substantive legitimation on the other hand, is much more ideological for it is assumed to be independent of social contexts. It does not depend on any system or discourse of signification; it is not conditional. Instead, the only means of conferring substantive legitimation is when relations conform to an ideal-type moral order [Richardson 1985, p.145]. State audit cannot claim to be extra-contextual; it is a product of particular

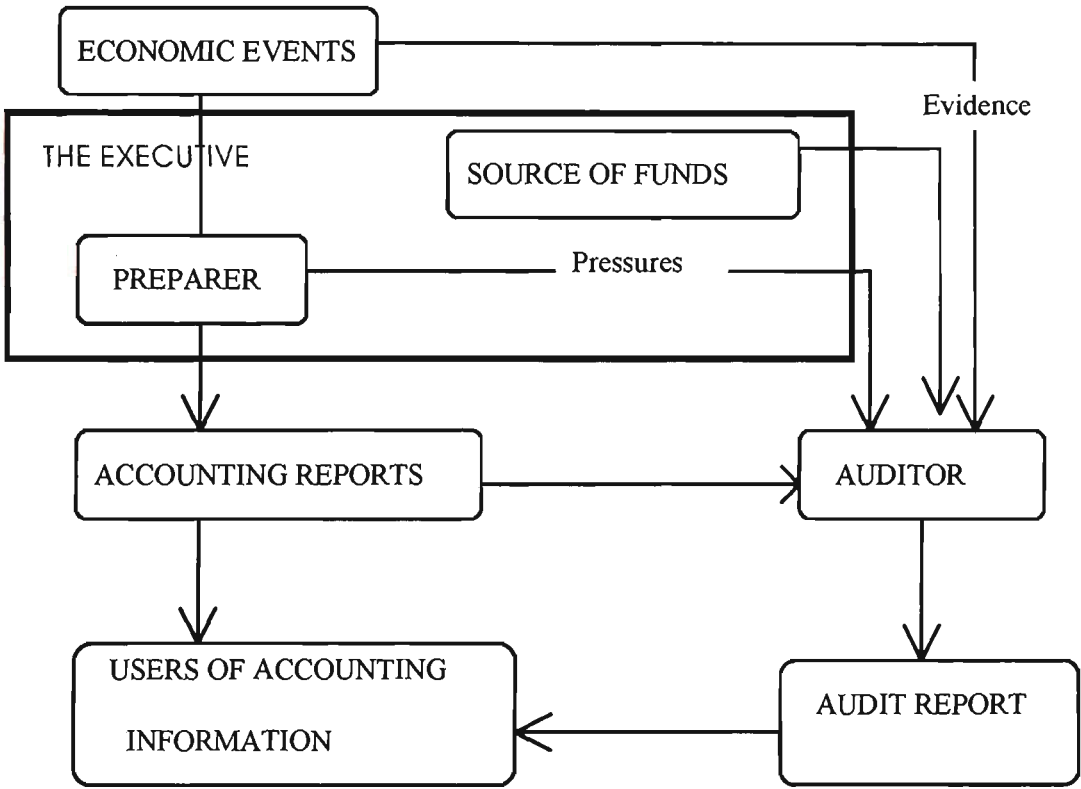
24. Treasurer 1992-93.

social and constitutional contexts. State audit exists not of itself or for itself but to serve contextualised ends. State audit is a derived social activity which has no inherent ideal goals or characteristics with which it strives to conform.

By providing the Executive with a means to legitimise its position, state audit provides a very attractive target for Executive efforts to influence, often surreptitiously, the state auditor. The opportunity for Executive intervention in state audit is seen in Figure 2.3 below in the Executive's roles as preparer of accounting reports and the provider of resources to state audit.

Figure 2.3

EXECUTIVE INFLUENCE AND STATE AUDIT



[Modified from AAA 1973, *A Statement of Basic Auditing Concepts*].

Whether audit is viewed as serving a monitoring function or a signalling function, each of the two views of audit has implications for the importance accorded to, and the nature of, independence which characterises state audit. In each view of the role of state audit, but especially its signalling role, independence can be seen as serving the interests of the Executive. Further, the relative importance of each role of state audit i.e. as a monitoring mechanism which could have negative or positive connotations and as a medium for Executive messages to influential groups, has changed according to the form of governance in which state audit is embedded.

Governance can be defined as an arrangement of constitutional principles and public sector institutions of regulation and management; it is a characteristic form that a system of government takes. Particular combinations of constitutional principles and institutions differentiate forms of governance. It is usual for a form of governance to change over time, although it is not usual for the core constitutional principles to change significantly, apart from during times of political revolution. Rather, it is the institutions which give effect to the constitutional principles which evolve into different forms as the scope, emphases and complexity of governments change. Each constitutional form gives rise to a congruent set of institutional arrangements, amongst which inevitably will be state audit.

This work incorporates three forms of governance which correspond to three broad epochs of Westminster governance since the early 19th century: a Patronage Model (or Model A); an Administrative Model (or Model B) and the Managerial Model (or Model C)²⁵. The differentiation of governance models used in this work, as shown in Figure 2.4, is very broadly based and recognises that within each governance epoch governance was never static nor homogeneous. Indeed, the schema used recognises that the form of governance changes and that these changes are not necessarily sudden.

25. Discussion of the Patronage Model is contained in Chapter 3. For a similar categorisation of governance models see Smith in Appendix 2.1.

Designating the appearance of a new form of governance in a particular period only recognises that there is sufficient change to distinguish and make obvious the new form of governance which has progressively emerged: its features have reached a level of recognisable maturity.

Figure 2.4

GOVERNANCE MODELS RELEVANT TO STATE AUDIT

	Patronage Model- Governance Model A	Governance in Transition	Administrative Model- Governance Model B	Managerial Model- Governance Model C
Period	Prior to the 1830's	1830's - 1860's	1860's - 1970's	1970's to the Present
Place of the Executive	Executive dominant.	Executive dominance diminishing. The rise of Parliamentary control.	Executive re-emerges in the early part of this period and then dominates Parliament for the remainder.	Executive dominates the Parliament.
Role of the Civil Service	No permanent body. Officers employed by each new administration. Patronage determines appointments.	Establishment of a permanent, professional civil service employed by the Executive.	Civil servants expected to be neutral agents of the Executive. Main concern is to ensure spending is according to parliamentary directions and public interest furthered. A public service administrative ethos emphasised.	Civil servants accountable for management competence as reflected in efficient and effective use of resources as well as traditional concerns of the public service. Outcome and output orientation to performance.
Significant Events for State Audit	The appointment of the Commissioners for Auditing the Public Accounts in Britain.	In Britain the <i>Audit Acts of 1832 and 1846</i> .	<i>1866 Audit Act</i> , 1861 Public Accounts Committee.	Establishment of Value-for-Money auditing in the public sector.

If the Parliament is stronger than the Executive and is able to enforce its demands that the Executive be accountable then the monitoring role of state audit is most relevant with its signalling role occupying a very much subordinate position. State audit at the time of the passing of the *1866 Audit Act* was nested in a form of governance which emphasised the constitutional responsibility of the Executive to Parliament. This was taken very seriously as was the importance of limiting the incursion of government into the life of the nation and the attendant expenses and taxes associated with this. Parliament was revered as an institution and seen as the fountainhead of all liberties enjoyed in Britain. A monitoring role for state audit would buttress Parliament's position. By the 1970's the monitoring role of state audit continued to be important but had been surpassed by its role as a mechanism of signalling as traditional governance was being reshaped within the existing constitutional relationships [see Chapter 4].

Having now established the importance of state audit within Westminster democracy and described the main roles it fulfills, the next section shows that state audit can only play its role with credibility if it is seen to be independent of external influences. An audit office which is shown to be the tame captive of the Executive, its auditee, will serve neither the interests of the Executive nor those of Parliament and the electorate.

2.4 THE IMPORTANCE OF INDEPENDENCE FOR THE STATE AUDITOR

In the absence of reports from the state auditor Parliament has little or no detailed knowledge about the Executive's finances. Therefore, because it is important that Parliament has confidence in the impartiality of the auditor's findings, the role of the state auditor in a Westminster democracy has come to be founded on the belief that the state auditor and his Office should be independent of the executive [JCPA, 1988, *Inquiry into the AAO*, Humphrey, Minutes of Evidence, pp.467,474]. In Australia the state auditor has also claimed *functional* independence from the Parliament [AAO, *Annual Report* 1992, p.3; AAO, *Auditing Standards*, 1987, s.2.2.1.3]. The Auditor-General may report to Parliament but he is not an officer of Parliament in the sense that

Parliament has detailed administrative control of him and his Office. Neither the Parliament nor the Executive have the right, either from legislation or constitutional custom, to direct the state auditor in the organisation of his Office or in the conduct and reporting of audits. Auditor-General Brigden (1981-1985) gave assurances that "successive Prime Ministers and their departments have not sought to play a part in the administration of the Office" [AAO, *Annual Report 1984-85*, 1985, p.4]. Accordingly, for the practical purposes of audit, the state auditor is not to be part of Parliament or the Executive [AAO 1989, *Response to Report 296*, p.8; Lusher, HR debates, 13 October 1981, p.1915].

Although the distribution of power is heavily skewed in favour of the Executive it is of significant advantage to the Executive, both on constitutional grounds as the elected elite and through its control over resources, to ensure that interested third parties do not perceive a heavy handed Executive presence in audit. Clear audit reports would count for very little if it was believed by these interested parties that the Executive was able to influence the findings or work of the state auditor. Mainly for the purpose of signalling, it is in the best interests of the Executive, therefore, to ensure that the state auditor is believed to be independent of the Executive, hence the discourse of independence.

Heinig stresses that for the preservation of democracy a crucial element is a state auditor who is independent [Normanton 1966, p.402]. The independence of the state auditor, indeed any auditor, is the essential quality of his post which guarantees the value of his work [Levin 1976, p.41; Sharaf and Mautz 1960, p.49; Nichols and Price 1976, p.335; Cook and Winkler 1976, pp.29,46; AAA 1973, p.13; INCOSAI, *Recommendations of the 9th INCOSAI, 1977, 30 Years of INCOSAI*, 1983, p.89]. Knighton also stresses that

nothing is more important in the establishment of an audit system ... in government than the laws enacted to secure and protect audit independence [1979, p.6].

Substantive independence encourages the state auditor to be more objective and prepared to take risks in his criticism. In the absence of 'independence' it is claimed that "the opinion and the value of the audit function itself is questionable" [St. Pierre 1984, p.257; Shockley 1981, p.785; Cook and Winkler 1976, p.29]. Independence has been referred to as: "the auditor's principal stock in trade" [Editorial, *Journal of Accountancy*, 1940, p.249]; the basis of the auditing profession's reputation [ICAEW 1956, quoted in Wolnizer 1987, p.126]; an essential ingredient to the nation's economic well-being [*The Accountant*, 1975, p.654] and fundamental to Westminster governance and democracy [Watson, Senate debates, 10 December 1987, p.2879 and 18 February 1988, p.241]. Gunz and McCutcheon [1991, p.777] describe independence as the quality which sets audit apart from other professions. In all these protestations of the importance of independence no attempt is made to give qualitative dimensions to the independence to which they refer. The implication is that independence is absolute: either the auditor is or is not independent.

The presence of a state auditor with *substantive independence* has the potential to be a powerful means of monitoring the executive and, where necessary, exposing its actions to public criticism. This recognises that the responsibility of the state auditor should be to the wider community and not just to its representatives who sit in Parliament [Loeb, 1978, in Likierman 1989, pp.119-20]. It is not only the act of exposure but also the threat of exposure by the state auditor which is at the heart of state audit's role in democratic government. The state auditor does not have to find every error, all misapplications of funds or expenditure without proper authority to be effective; he just has to make members of the executive believe that he can detect deficiencies [Great Britain, 1857, *Committee on Public Monies*, Minutes of Evidence, Q.1062; Geist 1981, p.11].

A vibrant democracy and an informed public are mutually dependent, for "access to information is vital to the knowledge of one's own interests and the broader life of the community" [Starr and Carson, in Rose 1991, p.690]. According to Prewitt, "democratic society is preserved when the public has reliable ways of knowing whether policies are having the announced promised effect. ... Numbers, ... contribute to the accountability of a democracy" [Quoted in Rose 1991, p.690; AAO, *Response to JCPA Report 296*, para.2.5, 2.6]. There can be limits to this. Some critics of the increasing openness of Western democracies have warned that questioning Executive policy too closely is to erode the legitimate authority of the government and jeopardise the very democratic processes which the information is meant to sustain. Using information to harass the Executive instead of enhancing a participatory democracy may only serve to

gain more sensation-mongering, matched by ministerial concentration on the trivial and meretricious, on cautious and short-sighted or interest-serving government [Tange²⁶ 1982, p.2].

Power elites, which could be the ruling party, build and seek to sustain a power structure composed of organisations, roles and affiliations aimed at the domination of rivals and of subjects [Domhoff and Dye 1987, p.9]. Criticisms of expenditure and financial policies by an independent auditor are to be avoided in closed societies: "usurping power is able to count, but it refuses to render account to anyone else" [Heinig, as quoted in Normanton 1966, p.402]. Being held accountable is disliked by power elites because of their need for autonomy. Societies controlled by a privileged and powerful interest group, class or party prefer secrecy to disclosure and are less compelled to answer for their actions. Also they do not relish the exposure of their faults [Auditor-General Taylor, *Financial Forum*, Vol.2, No.6, July 1993]. They

resist being checked ... (They) are not inclined to want others examining their conduct closely, second guessing their judgments, or questioning

26. Secretary, Department of Defence

how well they reconcile pursuit of the public interest with furtherance of their personal aims and ambitions. Few power holders operate under conditions of full disclosure. To the contrary, most expend considerable effort deciding what to withhold and how to present what they do [Stone 1987, p.240].

Appeals to the public interest by ruling elites to justify opposition to scrutiny is a well known strategy: How can those who hold the reins of power rule effectively if they must forever justify their every action? The ruled are instead to place their trust in the benign paternalism, good judgement and justice of the power elites²⁷.

If the presence of a state auditor cannot be avoided then an attempt may be made to capture the audit function, most effectively through Executive control of state audit resources. State accounting and auditing information might then be used in the symbolic or signalling fashion described above as a means to "rationalise or legitimise power relations" or to reduce the capacity for critical comment [Chua 1986, p.624; Baume, Senate debates, 15 September 1992, p.887]²⁸. A discourse of independence which projects the state auditor as beyond Executive influence will mask with a repertoire of symbolic gestures the imperfections in state audit independence and the intent of influential parties. Thus, the discourse of state audit independence has been characterised by pious expressions of respect for an independent state audit which, in light of the severe material and staffing constraints exercised over state audit by the Executive, do not arise from conviction or sustained belief. State audit can only be of value to the legislature, and ultimately the nation at large, if it is safeguarded in its monitoring role from this political manipulation.

The maintenance of independence, or at the very least an illusion of independence, depends not only upon freedom from outside control but it also requires that the state

27. The case of the Triborough Bridge Authority in New York demonstrated the consequences when the public are shut-out from scrutiny and criticism of public programs [Stone 1987, pp.255-7].

28. This has been quite common in fascist dictatorships. In Nazi Germany, for example, the state auditor was directly answerable to Hitler. It is not uncommon in countries with a very limited form of democracy, as in Indonesia and Korea, for state auditors to be drawn from the higher ranks of the military.

auditor operates in a non-partisan manner. The state auditor must not be seen to favour any interest group or to "give the impression of being moved by political values or interests ... His audit observations must be beyond suspicion of partisan taint" [Sutherland 1980, p.640; Monaghan, JCPA, 1988, *Inquiry into the AAO*, Minutes of Evidence, p.444]. Therefore, while independence is something which may be conferred, the state auditor has a major role in sustaining the belief that he and his Office are independent [AAO, *Auditing Standards*, 1987, s.2.2.2.7]. The constitutional role performed by the state auditor is only tenable if concerned parties *believe* that the state auditor's independence and that of his Office is substantive and not nominal or conditional. This presupposes, at the very least, that the legislation upon which the state auditor depends for his authority does provide believable and acceptable guarantees of his independence. Independence, however, is a fragile quality, something which may be professed in the legislation but if it is not widely believed to exist in practice then the state auditor is liable to be cast as a partisan participant in government. In other words, it must be generally *perceived* that the office and person of the state auditor do have the qualities of *substantive independence*. It is the perception of the reality of independence which counts [Shockley 1981, p.126; Great Britain, 1981, PAC, Evidence of D. Somers (as a member of the Exchequer and Audit Departments), Minutes of Evidence, p.37]. The credibility of the state auditor depends upon sustaining the confidence of the main constitutional participants in his independence [Shockley 1981, p.139; AAO, *Auditing Standards*, 1987, s.2.2.1.2]. Should doubts begin to assail other constitutional participants and this independence be seriously questioned then the state auditor's profession of independence becomes a sham and the need for state audit in its present guise would be seriously under threat.

Despite present appearances, both the position of state auditor and vaunted *claims* for his independence are very recent features of the constitution of Westminster democracies. There is nothing constitutionally sacred about the position of the state auditor and even less so for his professed independence. Neither the office of the state

auditor nor the state auditor's independence have been enduring aspects of Westminster constitutions. During the debate of the second reading of the *British Exchequer and Audit Department Bill* (Audit Bill) in 1866, Sir George Bowyer argued that the proposed audit functions of the Comptroller and Auditor-General had nothing to do with the constitution; audit was purely an administrative control. It was the Comptroller and Auditor-General's comptrollership function ie. control over the issue of appropriated money, which fulfilled a constitutional role [HC debates, 1 March 1866].

Since the mid 19th century the independence of the state auditor in Westminster democracy has acquired the qualities of a comfortable aphorism which is perceived to be wise because of numerous repetitions. As a consequence, the independence of the state auditor has assumed the status of a constitutional icon. Apart from isolated remonstrations [for examples see Chubb 1952, p.16], prior to the 19th century audit reforms in Britain there was not a generally held belief in the need for either a state auditor to work on behalf of Parliament or for the state auditor to be beyond the influence of the Executive. Edward Romilly, Chairman of the Board of Audit, assured the Select Committee on Public Monies in 1857 that

the Audit-Office [ie the Board of Audit] has never considered that the functions which they had to perform had any connection with Parliament ... Their duty ... was confined to seeing that the persons to whom public money had been impressed accounted for it [Evidence, Q.4456].

In a submission to the same Committee, the Board of Audit also stressed that it was to the Executive that they were accountable and as a consequence had always "considered themselves bound in all their proceedings to obey the directions of the Lords of the Treasury" [Appendix 3, p.590].

Any interpretations attached to state audit independence have accumulated since the mid 19th century. Most particularly, as Chapter 3 will demonstrate, the meanings

originated from partisan interpretations of clauses of the *1866 Audit Act* which ushered in the age of modern audit. Even though the *1866 Audit Act* addressed the independence of only the person of the Comptroller and Auditor-General [s.3&4] it was promoted as also conferring a co-ordinate level of independence on the staff of the Comptroller and Auditor-General's office²⁹. In contradiction to this, an examination of the clauses of the Act and the frequent references (68 times) to Treasury powers encourage the conclusion that the executive had no intention of letting loose an unfettered officer of Parliament within its departments.

A useful approach to understanding the nature of state audit independence is to contrast it with private sector audit. The next section, therefore, will firstly show that, while much of the research in private sector audit independence has relevance to state audit, the constitutional and political context of state audit sets its independence apart. Section 2.5 also explicates the avenues of Executive influence over the discourse of state audit independence. It is then proposed that, to sustain a belief in independence as substantive, interpretations of independence have relied upon both legal protections for the *position* of state auditor and the qualities of the *person* of the state auditor, his integrity and independence of mind in particular. It is then established that interpreting independence in this manner has enabled Executive Governments to downplay the significance of Executive financial controls over state audit.

2.5 INTERPRETATIONS OF INDEPENDENCE

2.5.1 *A Comparison of the Construction of Independence in Private Sector Audit and State Audit*

Independence in state audit is not merely a type or subset of private sector audit but represents a distinct and separate category. In Figure 2.5 below the comparison of private and state audit independence illustrates how, despite basic similarities,

29. However, when pressed, the executive would reluctantly admit that the Act had little or nothing to say about the independence of audit staff [Great Britain, 1981, PAC, Evidence of Sir Douglas Henley (C&AG) and Sir Arthur Rawlinson (Treasury), pp.12,59].

independence in the two arenas of audit diverges in many crucial aspects. The AAO's *Auditing Standards* [1987] recognise that

(t)here are large areas of commonality in standards and practices (between private and public sector audit) ... but there are important differences of principle and practice. The most important of these stem from public accountability requirements and differences in the scope of the audit mandate [section 1.1.6].

Any discussion of state audit independence using the private sector as the referent must therefore be aware of the characteristics of state audit which make it unique.

Figure 2.5

A COMPARISON OF FACTORS RELEVANT TO THE INDEPENDENCE OF PUBLIC AND PRIVATE SECTOR AUDITORS IN AUSTRALIA

CHARACTERISTIC	PUBLIC SECTOR AUDIT	PRIVATE SECTOR AUDIT
APPOINTMENT OF AUDITOR	By the Governor-General on the advice of the Prime Minister. Despite being appointed by the auditee the state auditor works for the Parliament and not for the auditee.	By the directors on behalf of the shareholders. The auditor works for the shareholders.
RESOURCES OF AUDITOR's OFFICE	Most resources provided by the Executive. The Auditor-General must negotiate with the Department of Finance (DOF).	Audit fees are negotiated with the auditee.

PURPOSE OF AUDIT	<p>To check that auditees have:</p> <ul style="list-style-type: none"> i) adhered to all relevant regulations-<i>regularity audit</i> ii) spent as appropriated by Parliament- <i>legality audit</i> iii) used resources efficiently and effectively in the pursuit of Executive program goals-<i>performance audit</i>. <p>Administrative effectiveness is emphasised, not program effectiveness.</p> <ul style="list-style-type: none"> iv) provided accounts which fairly and accurately report the transactions of the agency-<i>financial statements audit</i>. <p>Auditing is also used semaphorically.</p>	<p>To <i>attest</i> that financial reports are a true and fair representation of the transactions of the auditee. This is a financial statement audit.</p> <p>To <i>enhance the credibility</i> of financial information and thereby increase the confidence of interested third parties in the faithfulness of the financial reports.</p> <p><i>Management audits</i> are not instituted by the shareholders; they are between the management and the auditor. Other management advisory services are between the management and the audit/accounting firms.</p>
TENURE OF AUDITOR	During "good behaviour" ie until the auditor decides to retire or up to age 65.	One financial year or until the directors or shareholders decide to replace the auditors.
RELATIONSHIP WITH AUDITEE	The state auditor is usually appointed from the top ranks of the Executive, often towards the end of his public service career. It is usual for the state auditor to have spent some or most of his career in the Treasury. The state auditor is expected to maintain a stance of separation from the Executive.	The auditor should not have had or currently have a position with the auditee. Any relationships with the auditee are to be clearly stated. Certainly third parties would look with apprehension on an auditor who was appointed from the top management of the auditee immediately prior to appointment as its auditor.
STAFFING ARRANGEMENTS	Conditions of work for staff other than the Auditor-General are determined by provisions of the Public Service Act. The Auditor-General has the authority to promote and dismiss but not to appoint.	Staff are appointed by the auditor's management. A similar standard of separation from the auditee is required by all staff engaged in an audit.

DISMISSAL	There must be the concurrence of both Houses of Parliament which pass their recommendation for dismissal to the Governor-General.	The shareholders at an annual general meeting vote to change auditors. Usually this means that the directors, who are often the majority shareholders, make the decision.
REPORTING	All reports go to Parliament and are available for public inspection, apart from some reports excluded for purposes of state security. The auditor does not accept any audit projects which are wholly on behalf of auditee management.	Audits of statutory financial reports go to the shareholders and other interested parties. Management audit reports are confidential to the management and the auditors.
DETERMINANTS OF THE AUDIT MANDATE	Legislation in the form of an audit act governs <i>Audit</i> . <i>Auditor</i> does not respond to auditee requests for additional services. Companies Acts and other legislation also relevant.	Mainly Companies Acts and the requirements of auditees for other services.
INFLUENCES ON AUDIT METHODS	The auditor is to be given a free hand to gain access to any information considered essential for the audit. All audit methods are for the sole discretion of the auditor. Performance audits are discretionary, the timetable of which is the responsibility of the auditor. The auditor will take into consideration professional audit standards. The auditee in the form of DOF can influence the auditors methods by determining the content and nature of auditee financial reports.	Audit approach is mainly determined by standards which are formulated by the professional accounting bodies and by the standard setting authorities. Company legislation and stock exchange requirements will also influence audit practices. The auditee has no say in the audit methods used.
SOURCES OF INDEPENDENCE	Audit legislation, personal integrity of the state auditor.	Professional ethics, personal integrity of the auditor.

The significant differences between state audit and private sector audit which are relevant to the independence of the auditor, therefore, concern the method of appointment and dismissal of the auditor, sources of independence and the relationship with the auditee which in the case of the state auditor is determined by constitutional conventions. The latter is particularly significant with most private sector audit commentators stressing that independence is largely the consequence of the auditor remaining at a professional and operational distance from the auditee. If in the private sector an auditor who previously had been a top level manager in the firm audited was appointed by the directors, it could be expected that the shareholders would have less confidence in his or her objectivity and freedom from bias. Apart from shareholder apprehensions, it is doubtful whether the ethics of the profession would condone the appointment. Yet in the public sector, the Executive and Parliament in Australia have had no qualms about taking all state auditors from the ranks of significant public sector auditee's and still expect him to be accepted as beyond the influence of the Executive and its agencies.

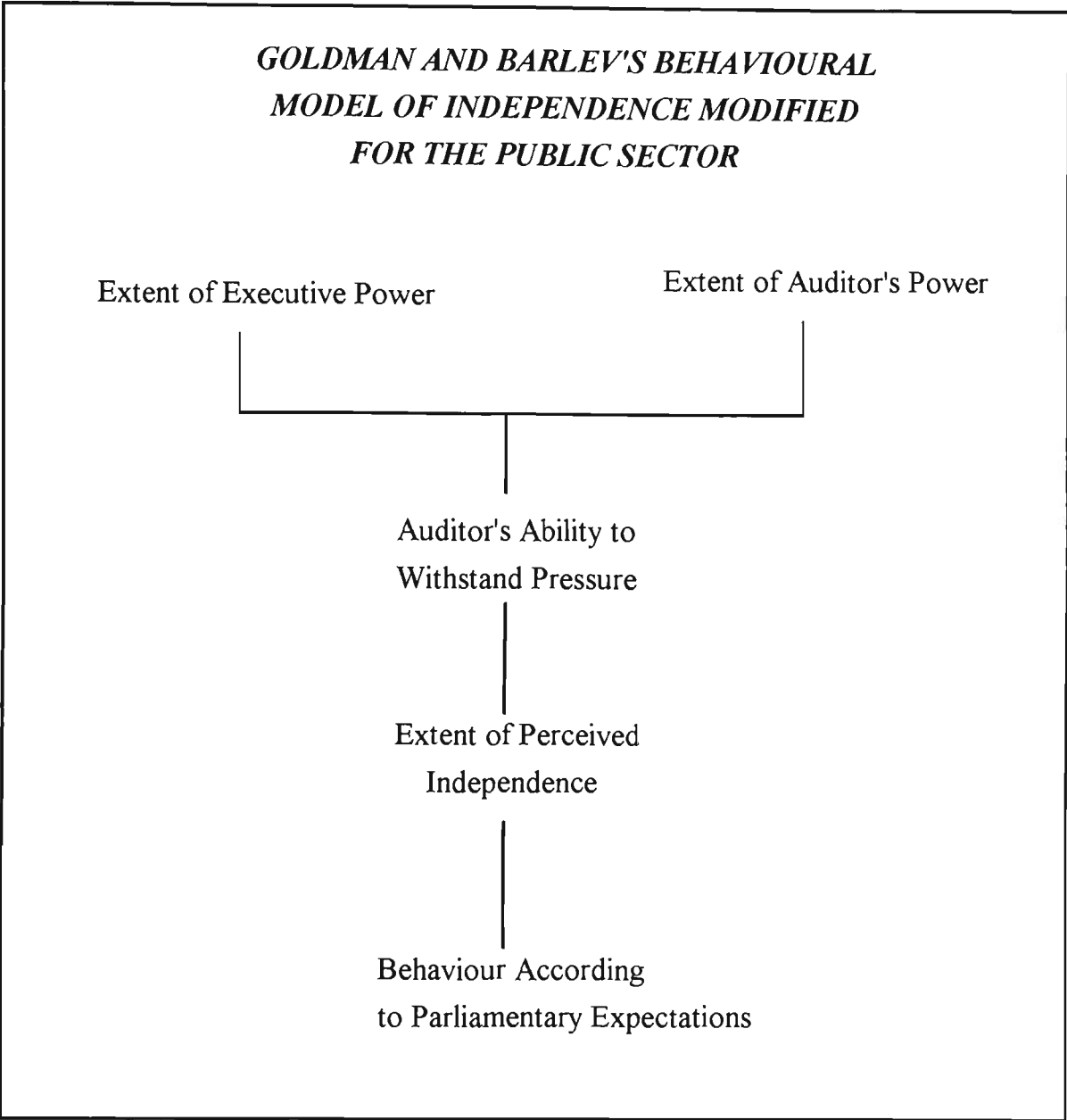
In a recent statement of auditing standards, the Australian Auditor-General admitted that the auditing standards of his Office owed much to the Statements of Auditing Standards and the Statements of Auditing Practice issued by the professional accounting bodies [AAO Auditing Standards, *Gazette*, 7 August 1987, para.1.1.7], although the correspondence in auditing standards between the two sectors of audit is not isomorphic. Within the AAO's *Auditing Standards* there is recognition that in the context of the public sector, independence may have a wider meaning. Whereas in the private sector little concern has been expressed about the auditors' relationship with their clients, the shareholders' representatives, the Australian Auditor-General has emphasised repeatedly that his Office carries out its work free from interference from its client, Parliament [Monaghan J. 1985c, p.19; AAO Standards, para.2.2.1.2 and 2.2.1.3; Taylor, Paper presented for the Senate, 28 August 1989]. Both sectors of

audit see it as crucial that separation from auditees be clearly established for all to see:
in the case of the state auditor

(t)he public sector auditee is not in a client relationship with the Auditor-General. A Minister, department, or board of a statutory authority cannot influence the scope of the audit or its findings against the professional judgment of the Auditor-General. The audit institution has to discharge the audit mandate freely and impartially, taking management views into consideration in forming audit opinions, but owing no responsibility to the management of the auditee body for the audits undertaken [AAO, *Auditing Standards* 1987, para.2.2.3.2 and .3].

Goldman and Barlev [1974] have interpreted auditor independence as the outcome of the ability of the auditor to withstand pressures by the auditee to influence the auditor. As shown in Figure 2.6 below, in the public sector the auditor's ability to resist these pressures is a function of the dependency of the state auditor on the Executive and the distribution of power between the Executive and the state auditor: "the greater the dependency ... on the rewards and/or punishment that the other can mediate, the greater will be the power of the party to gain compliance with ... (their) wishes" [Nichols and Price 1976, p.337]. In both audit jurisdictions the auditee pays for the services of the auditor.

Figure 2.6



Given the immense power of the Executive in modern Westminster governance, the context is overwhelmingly weighted in favour of the Executive. This has meant a shift in emphasis in interpretations of what constitutes the sources of state audit independence. Previously, in Figure 2.5 independence of the state audit was shown to be related to personal qualities of the state auditor and legislation. For the discourse of independence, the former has been particularly important to compensate for legislated deficiencies, as the following section demonstrates.

2.5.2 Psychological Interpretations of State Auditor Independence: Independence is a State of Mind

The discourse of state audit independence has portrayed independence principally in terms of the state auditor's professional and personal integrity, that is, his ability to carry-out his duties in an unbiased and honest manner. Independence came to take on meanings more to do with the state of mind of the auditor than anything to do with the process of audit. This, it has been argued, will be a bulwark against assaults on the state auditor's office. An "independent mind" would ensure an independent audit [Windal and Corley 1980, p.30; Bartlett 1991, p.45; Senate debates, 6 May 1987, p.2386 and 27 May 1993, p.1474]. It is argued that it is this which will generate confidence in an auditor's work, not the technical aspects of audit [AAA 1973, p.16]. In his work on private sector audit Wolnizer has stressed that the notion of auditor independence has been interpreted so exclusively in terms of the personal qualities of the auditor that there has been little or no concern with the independence of either the tests carried out by the auditor or, more importantly, with the independence of the evidence used to reach audit conclusions [Wolnizer 1987, p.3]. Independence has been overwhelmingly accepted as inhering "in the attitudes of, and relations between, persons" [Wolnizer 1987, p.121].

There has thus been an emphasis on what Laframboise [1983] refers to as *independent accountability*. Independent accountability comes from within the individual; it is an obligation which the individual imposes on himself/herself. A person with an internal locus of control is more likely to have the quality of independent accountability. Using measures of the locus of control³⁰, a person who can be described as an 'internal' does not see the need to be accountable as primarily arising from external parties. Rather, an 'internal' sees accountability in terms of calling "one's

30. Locus of control is a personality construct used in psychology, and adopted by researchers in accounting, which describes how people perceive the source of influences over their life. Those who are shown to be internals on the scale of locus of control believe that they have the biggest influence on the unfolding of their life. Externals act as if it is predominantly forces and institutions outside themselves which are most important in shaping their life.

self to account for one's actions. Dependent accountability, on the other hand, responds to accountability demands arising from others [Laframboise 1983, p.326].

The discourse of state audit independence has been particularly effective in forming a perceived bond between the state auditor's integrity and the quality of his independence and that of his Office. His unquestioned personal integrity is promoted as the real guarantee of independence and objectivity. Wolnizer has characterised these interpretations of independence which rely upon the personal qualities of the auditor as incomplete and flawed [Wolnizer 1987]. As a result, there has been a high degree of 'blind faith' in relation to beliefs about the independence of the person of the state auditor but especially in regards to the independence of his Office. It has involved the deception that a highly reputable, dignified, honourable and experienced civil servant who is appointed, often in the closing days of a distinguished public service career, as the state auditor will not submit to threats to his independence. The public and Parliament are asked to accept that a long serving public servant is able to turn his back on a culture and network of personal and professional relationships which nurtured him throughout his, usually, long career in the public service and take on a new set of loyalties and beliefs which are aimed at giving him something which he never enjoyed before as a public servant: his independence. Even the very close ally of the British state auditor, the Public Accounts Committee (PAC), has at times found this hard to believe: "it cannot be easy for a former civil servant to transform himself from a colleague of other accounting officers into their external auditor" [Report, 1980, p.LV]. To add further weight to this behavioural character of audit independence the state auditor is also expected to act as a professional, "one who performs a significant activity in a spirit of dedication" [Schaefer quoted in Likierman, 1989, p.619]. This reliance upon the professional and personal integrity of the state auditor has made the discourse of independence very persuasive. The state auditor personifies independence: to question the state auditor's independence is to question his integrity and state audit itself.

When appointment of the state auditor has been immediately before retirement³¹ it has been suggested that this is another means of demonstrating his integrity and enhancing his independence from the Executive. According to this argument, the state auditor's career has nothing to gain from him favouring the Executive. A contrary and more convincing interpretation is that the 11th hour appointment of the state auditor has been often, though not always, a means by which the Executive has been given a high degree of assurance of the way the state auditor will fulfil his mandate. The appointment of a tried, proven and loyal member of the public service, most notably from the Treasury, could ensure a high degree of predictability in the views of the state auditor. Appointment as state auditor has been used by the Executive as a reward for meritorious civil service. The position of state auditor is highly sought after in the public service; it is seen as a pinnacle of public service positions [Robinson 1924, p.148]. Accordingly, it is less likely, although not impossible³², that the state auditor would do something which would blot an otherwise unblemished reputation. Late career appointments, therefore, have been used by the Executive as a form of damage control and a recognition that political patronage still exists [See Garrett's comments, Great Britain, 1981, PAC, *Inquiry into The Role of the Comptroller and Auditor General*, Minutes of evidence, p.49].

State audit is considerably more secretive than private sector audit, if only for the fact that there is a close relationship between the auditees in the Executive and the auditor's client, Parliament. Parliament customarily has devoted a very meagre amount of its time to reviewing the work of the state auditor, preferring instead to leave most of this to its standing committee the JCPA³³. Reid and Forrest have observed that

31. Recent examples include Steele Craik [1973-1981], Brigden [1981-1985] and Monaghan [1984-1987].

32. See Chapter 7 for a discussion of the problems faced by the present Auditor-General, John Taylor.

33. At various times other committees have also been involved, including the Expenditure Committee, between 1978 and 1983, which was replaced by the House of Representatives Finance and Public Administration Committee.

when the preoccupation of one side of the assembly is in the maintenance of the government's majority, and on the other side in its destruction, members are not favourably disposed to concentrate on housekeeping in public administration [1989, p.347]

Consequently, one comfort which the electorate have that the state auditor is promoting their interest is the state auditor's public assurances of his independence. These are given weight by Executive and Parliamentary professions that the state auditor is indeed an independent officer. His high legal status, comparable to a member of the judiciary, underlines this confidence.

Common synonyms for independence are objectivity (of the auditor) and freedom from (personal) bias. The auditing pronouncements of the AICPA stress that "in all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditor" [AU 220.03, quoted in Wolnizer 1987, p.123; AUP 32, para.12]. Audit authorities accept that "an independent attitude ... is indispensable", it is "an imperative needed to add credibility to a communicated opinion" [AAA 1973, p.16]. In the Australian auditing standards this is amplified to mean that in both public and private sector audit [AUP 32, para.5] the auditors

should be straightforward, honest and sincere in their approach to their professional work. They must be fair and must not allow prejudice or bias to override their objectivity. They should maintain an impartial attitude and both be *and appear to be* free of any interest which might be regarded, whatever its actual effect, as being incompatible with integrity and objectivity (emphasis added) [AUS 1, para.16]³⁴.

Achievement of impartiality is therefore

heavily reliant upon the personal attributes of the individual. Without believing in and supporting the need to remain independent of any bias, personal interest, susceptibility to undue influence or pressure, the auditor is unlikely to achieve the *appropriate attitude of mind*. Personal attributes essential to the maintenance of an independent frame of mind include:

34. This statement of auditing practice is identical with the AICPA's AU 80003.05, 1980.

- (a) *integrity*- the staunch observance of accepted standards of honesty which must underlie all professional decisions and actions. ...
- (b) *objectivity*- an unwillingness to allow prejudice or bias to influence judgment and the maintenance of a fair and impartial attitude; and
- (c) *strength of character*- the ability to maintain integrity and objectivity in the face of pressure from others. The opinion of the auditor is vital to the credibility of financial reports, and the governing body, recognising this, may seek to influence the auditor. Without the strength of character to withstand such pressure the auditor will not be able to express an independent opinion [AUP 32, para.13].

Standards, rules, regulations and legislation aid in the achievement of independence but they are not certain guarantees. In the final analysis it will always be the personal vigilance and integrity of the auditor which will determine whether the image of auditor independence is maintained [see Trueblood in AAA 1973, p.17]. To have an independent state of mind is to have "an attitude of impartiality and self reliance" [Ricchiute 1992, p.27]. The Australian Auditor-General Steele Craik when asked by the British PAC whether, in light of his long career in the Treasury, his relationship with the Treasury impinged upon his independence replied

not in the least ... I am not necessarily influenced by what they say or by what they would like me to do. I do not feel that it impairs my independence in the least [Great Britain, 1981, *Inquiry into the Role of the Comptroller and Auditor General*, Minutes of Evidence, 11 June 1980, p.8].

Since the emergence of modern auditing in the mid-19th century, independence has been the great bulwark of the auditing profession. Characterisation of the auditor as a strong minded individual who values *substantive independence* contributed to the status and respect of the auditing profession. It should be noted at this stage that the emphasis has been on the independence of the auditor and not that of the audit process itself. It is expected that if the auditor is seen as independent then the audit conducted will be viewed similarly. Consequently, the features which bolster the perception of the auditor's personal independence are the foundation of confidence placed in the audit and not a given set of desirable characteristics of the technology of audit. In 1947 the

AICPA reminded its members that "historically independence was the first requirement; the need for that was recognised even before the need for technical competence; it was the climate into which the profession was born" [Quoted in Wolnizer 1987, p.125]. These views on private sector audit have been shown to be equally applicable to the state auditor. So important are these perceptions that the Australian Auditor-General indicated he had a responsibility to ensure that the community understood the nature of his independence [AAO, *Auditing Standards*, para. 2.2.2.7]. The public might not be able to understand the audit process or why they should have confidence in it but they would be more likely to understand independence when it is given human form in the person of the state auditor.

Whenever the state auditor has been too closely questioned about the extent and strength of his independence he has invariably retreated to declarations of his integrity and his independent state of mind or attitude as the last line of defence [see for example, Great Britain, 1981, PAC, *Inquiry into the Role of the Comptroller and Auditor General*, Minutes of evidence, Henley (C&AG), p.73]. The state auditor has known only too well that if he appealed to the audit legislation and to the record of his practice of audit that any claims of *substantive independence* could be easily refuted as without any real foundations: *de juris* and *de facto* independence were no different.

The qualities of uprightness of character, probity, honesty ensure that integrity is a very amorphous and complex concept which is not easily challenged because it is not readily empirically verifiable or easy to interpret. Reliance upon the auditor's state of mind and integrity as both guarantees and evidence of independence is an advantage for those who directly and most benefit from a belief in state audit's independence being substantive; it is very difficult to refute the existence of independence. A state of mind cannot be measured with objective criteria nor cannot it be observed directly [Cook and Winkler 1976, p.46]. It is only the actions of the auditors which can be observed. Sharaf and Mauntz agreed that

important as the concept of independence is to auditing, it is one of those elusive ideas difficult to reduce to an easily understood definition. Thus one searches in vain for a comprehensive authoritative statement of the meaning of independence in auditing" [1960, p.49].

A form of independence which is largely guaranteed by the attitude of the state auditor will depend very heavily upon maintaining the *appearance* of being independent. Appearances are not only desirable but must be maintained at all costs [Nichols and Price 1976, p.335]. Most authors are agreed that the value of state audit is based on the perception that the auditor is independent:

the conclusion reached by a knowledgeable observer in evaluating an auditor's relationship is the ultimate test of whether such a relationship would cause the auditor's appearance of independence to be impaired. Appearance is essential to maintaining confidence in independence [Cook and Winkler 1976, p.47].

Appearances and not the reality of independence will ultimately determine the credibility of and confidence placed in the auditor: the "general impression is what is carried to the public and to the people whom we audit. This is the whole role; there is an important concept in this" [Great Britain, 1981, PAC, Minutes of Evidence of D. Somers (from the Exchequer and Audit Departments), p.37; see also Shockley 1981, p.785]. If the concerned audience start to doubt the veracity of the auditor's independence the state auditor has little else to provide a convincing case otherwise. The pillars of independence, when seriously examined, have been shown to be riddled with fissures which are not obvious from a cursory inspection of the edifice. Consequently, because of the evanescence of independence recourse has to be made to surrogate measures of independence, prominent amongst which are professional restrictions on associations between the auditor and the auditee and the quality of ie. the confidence which can be placed upon, the auditor's reports. To ensure this, the Auditor-General should not only resist external political pressures but also give the appearance of not "being responsive, to the wishes of particular political interests"

[Monaghan 1985c, p.15]. The Auditor-General has interpreted this as refusing any requests by the Executive for the Auditor-General to undertake any functions which were outside his clearly legislated mandate [see for example *AAO Annual Report*, 1984-85, p.51]. Thus, requests to undertake specific enquiries, something which the United States General Accounting Office (GAO) would do, the Australian state auditor has seen as "inconsistent with the Auditor-General's independent role" [Monaghan 1985c, p.15]. The auditor must not get involved in providing advice on how auditee departments are to carry out their duties or participate in the management of an auditee [AAO, *Auditing Standards* 1987, paras.2.2.3.3 and 2.2.3.10].

Whereas in the private sector the auditors are aware that if they displease the auditee sufficiently they stand a good chance of losing the appointment, it is not necessary for the Auditor-General to please his auditees, although he should encourage a good working relationship wherever possible [Monaghan 1985c, p.19]. Auditees which are required by law to be audited by the Auditor-General have little choice but to stay with the Auditor-General. This has been the case for all departments of state, most statutory authorities and some public sector companies. Auditor-General Taylor has stressed that the exclusive client relationship the state auditor has with the Parliament did not mean that the state auditor had no obligations to its auditees. Instead, he recommended that the state auditor

owes them sound and efficient auditing services, competitive and expert, commercial in attitude, responsible, sensitive, helpful and professional in approach. ... (While) there can (and should) be no doubt that Parliament is our ultimate and undisputed client, each auditee should be treated in fact as our immediate client with whom we want a good relationship ... [Paper for the Senate, 28 August 1989].

Both the surrogates chosen for the qualities of independence and the metrication of these have been determined by the discourse of independence. The discourse directs attention to qualities of audit and the auditor which are to represent independence.

Those who manage the discourse therefore are able to engineer the dimensions of independence which set the boundaries of admissible discussion.

Appeals to the exemplary character of the state auditor by themselves are still not enough to instil confidence in the independence of the state auditor. In particular, legislation is needed to give form to the state auditor's independence. It is demonstrated in the section following that the contributions of audit legislation to beliefs about independence create the impression or even confusion that they are there to guarantee the independence of the person of the state auditor *and* his Office when it is only the former which receives any recognition in legislation. It is upon this mistaken belief that the discourse of independence has relied.

2.5.3 Legal interpretations of State Audit Independence

The state auditor's independence is said to be guaranteed by legislation [AAO, *Annual Report 1984-85*, 1985, p.6]. His *statutory* independence results from the quasi-judicial method of his appointment, payment and dismissal and his powers of investigation and reporting [see Figure 2.5]. Following the practice of British audit legislation of the latter decades of the 19th century, the *Audit Act of 1901*³⁵ stipulates that the Auditor-General will be appointed by the Governor-General but is silent on the means with which prospective candidates for the position come to the notice of the Governor-General [s.3]. By custom, again following the British tradition, the Governor-General appoints on the suggestion of the Prime Minister. Both these officers are members of the Executive: the Governor-General is the representative of the titular head of the Executive while the Prime Minister is appointed by the Governor-General. In both Britain and Australia the central financial and co-ordinating departments have been

35. The *Audit Act* was concerned with the comptrollership and auditing functions of the Auditor-General. Our concern here is with audit.

extremely influential in the appointment of state auditors, invariably from their own ranks³⁶ [see Chapter 3; Great Britain, 1980, PAC , p.Lii].

There is at the very outset, therefore, a contradiction in the statutory independence of the state auditor. Reliance on the assurances of the auditor that he acts independently of auditees, in the sense of *substantive independence*, is even more relevant in the public sector where there is no direct relationship between the selection of the auditor and interested third parties, in this case the electorate, and there is no opportunity to participate in the audit process. Thus, unlike the private sector where the auditor is appointed by a meeting of the investing stakeholders of the firm, in the public sector the electors which comprise the stakeholders have virtually no input in the selection of the state auditor. Also, unlike the usual practice in the private sector, the client of the state auditor, Parliament, has no direct say in the selection of its auditor.

We therefore have an auditor selected by, in effect, the auditee, paid for by the auditee and reporting to a body which is controlled by the auditee. The state auditor is appointed from and by the very group whose activities he is to monitor. Certainly it is the elected representatives of the majority party which may be seen to act on behalf of the electorate in the selection of the state auditor but these are members of the Executive. In this relationship the link between the electorate and state auditor selection is very tenuous indeed. Whereas the selection and retention of an auditor in the private sector is of crucial concern to the investing stakeholders there is no evidence that the electorate's concern and level of audit consciousness can be raised to the same levels over the selection and activities of the state auditor. If not for the press drawing the attention of the public to the more sensational findings, most of the work of the state auditor goes unnoticed by the stakeholders.

³⁶. For example Steele Craik (Auditor-General 1973-1981) came from the Treasury, John Monaghan (1984-1987) and John Taylor (1988-) from, at various times, the Public Service Board (in Monaghan's case he was a Commissioner of the Board) and the Prime Minister's Department [JCPA, 1988, Taylor, Minutes of Evidence, *Inquiry into the AAO*, p.569].

The method of appointment of the state auditor in Australia has been a source of continual ambiguity and confusion in the relationship of the state auditor to the Executive and to Parliament. At various times the state auditor has been referred to as a public servant [Lusher, Senate debates, 13 October 1981, p.1914]; an "officer of the Crown" [Steele Craik reported by Lusher, Senate debates, 13 October 1981, p.1914] and an "officer of Parliament" [Gladstone, HC debates, 28 June 1869, col.632; Robinson 1924, p.152; HR debates, 17 November 1978, p.26; Bowen, Deputy Prime Minister, HR debates, 11 May 1987, p.2933]. This last description, despite high level Executive statements to the contrary³⁷, seems to have been the most popular conception of the state auditor's constitutional position. This carried with it the implication that the state auditor worked as constituent element of Parliament; that he was to do Parliament's bidding at its will. Such an interpretation, however, confused the fact that the state auditor for operational purposes had a closer relationship to the Executive. After nearly a century of the practice of state audit in Australia the appointment and reporting conditions of the state auditor still have the capacity to confuse even Parliamentarians. On one occasion it was noted that

at the moment (the Auditor-General) lies within the executive government but the statutory responsibility of the Auditor-General is to report to the Parliament. In many respects it can be argued that the Auditor-General ought to be and is the servant of the Parliament; not just part of the executive government and subject to the whims left open to it at the behest of the Executive government of the day [Senate debates, 9 October 1991, p.1672].

Confusion surrounding the constitutional place of the state auditor started early. In the debates in Britain prior to the passing of the *1866 Audit Act* there was some

37. Sir Robert Menzies, as Prime Minister, thought it

clear that the ... Auditor-General is not an officer of the Parliament in the sense that he is subject to the direction of either House, or in the sense that an attempt to obstruct him in the course of his duties would constitute a contempt of either House [HR debates, 5 November 1952, p.3].

uncertainty as to the constitutional position of state auditors and whether they should be allowed to sit in Parliament. This was finally rejected on the grounds that

members of the Audit Board had to proceed with judicial impartiality and entire independence, and nothing could be more detrimental to that character than to place those gentlemen in a position where conscientious expression of their views might bring them into collision with the Government ...[HC debates, 20 April 1866].

An Australian Auditor-General thought the position of the state auditor sufficiently unclear to write a paper entitled "Who Does the Auditor-General work for?" [Monaghan 1985c]. The conclusions of the British PAC in 1980 were equally applicable to the Australian state auditor:

the present position seems to us to be equivocal. Despite being required to conduct his audit on behalf of the House of Commons, because he is appointed on the recommendation of the head of the civil service to the Prime Minister and has invariably come from the ranks of the senior civil service; because of the references in the Exchequer and Audit Department Acts to the Treasury's powers to direct the Comptroller and Auditor-General on audit matters; because his staff are civil servants; and ... because of the name of the department, the Exchequer and Audit Department, *the Comptroller and Auditor-General and his staff are commonly ... regarded as part of the executive ...* (It is constitutionally anomalous. (Emphasis added) [Great Britain, 1981, PAC, *Inquiry into the Role of the Comptroller and Auditor-General*, pp.Liv, Lv; see also PAC, HC 330, 1978-79].

It took the National Audit Act (NAA) in Britain in 1983 to clarify finally for that country that the state auditor was an officer of Parliament and to achieve *substantive independence* for the state auditor.

In the original *Audit Act of 1901* no retirement age was specified for the state auditor who was allowed to hold office "during good behaviour". This was subsequently modified in 1926 [Act No.18, s.(3)] to age 65 [s.5A]³⁸. It was given to the Governor-General to dismiss the Auditor-General but only on the recommendation of both

38. Virtually identical conditions of appointment and dismissal pertained to the British C&AG under the *1866 Audit Act* [s.3].

Houses of Parliament sitting in the same session [s.7]. The Auditor-General, however, could be suspended by the Governor-General without the prior approval of Parliament. Should the need for this arise, the Treasury [after 1978 it was the Minister of Finance] was also implicated for the Act required the Treasury to lay before both Houses evidence to support the Auditor-General's suspension [s.7(2)].

Under the *1901 Audit Act* payment of the Auditor-General, not his Office, was to be taken out of the hands of the Executive and Parliament by making a direct charge on the Consolidated Revenue Fund [s.4]³⁹. This avoided the need for the salary of the Auditor-General to be dependent upon the generosity of either the Executive or the Parliament when the annual appropriations were laid before Parliament. The Auditor-General was not subject to the Public Service Act, although section 25(4) of the Act gave him similar powers to that of a departmental Permanent Head in relation to the administration of his office.

The statutory provisions covering appointment, dismissal payment and performance of audits when combined with assurances of the state auditor's personal integrity and objectivity have been held out by both the state auditor and the Executive to be sure guarantees of the independence of the Auditor-General *and by association his Office* [Lidbetter 1986, p.9; Monaghan 1985c, p.13]. Report 296 of the JCPA suggested that it was "meaningful to discuss the independence of the Australian Audit Office in terms of the independence of the Auditor-General" [1989, p.57]. This implied that the independence of the Auditor-General and the Office were one in the same. However, the original audit legislation and subsequent amendments did not mention conditions of service or the independence of members of the Auditor-General's office, apart from noting that the Auditor-General had the power to appoint persons to inspect and audit accounts [s.11(1)]. There are therefore no legislative provisions designed to protect

39. The salary of the Auditor-General at the time of the 1978 amendments to the *Audit Act* was determined by the Remuneration Tribunal under the *Remuneration Tribunal Act* [1973]. The Tribunal's recommendations had to receive the approval of both Houses of Parliament.

the independence of the state auditor's staff. Their only protection has been that which might be reflected from the Auditor-General. INCOSAI in 1977 recognised that this was insufficient to ensure the independence of state audit. Instead, they concluded that independence of the state audit office "is inseparably linked to the independence of its members" [30 Years of INCOSAI, 1983, p.89]. In contradiction to the legislative protections for the independence of the person of the state auditor, the independence of his Office was not real, substantive, or apparent.

2.5.4 State Audit Finances and Independence

The greatest threat to the state auditor's independence has been his dependence on the Executive for the resources necessary to meet his audit mandate [Royal Commission on Navy and Defence Administration, 1918, Special Report, 30 December; JCPA 1987, chapter 2; AAO, Fourth Submission to RCAGA, 1974, p.2; AAO, *Annual Report 1984-85*, 1985, pp.6-7]. To Normanton, control of the resources of the state auditor, a non-Executive body, by the Executive has been a long standing "constitutional anomaly" [1966, p.374]⁴⁰. In Australia, the state auditor has been at the mercy of the Treasury and later the Department of Finance. This created a

contradiction in the arrangements whereby an important auditee (the Department of Finance) is the adviser to Government on the AAO's resources. There is a need for new arrangements to be formulated which, as a minimum, give the public greater scope through their elected representatives to influence decisions affecting the allocation of resources to the AAO, while retaining appropriate restraint on resource levels [AAO, *Response to Report 296*, p.11].

Therefore, "(l)ooked at *idealistically* ... (the Auditor-General's) independence from the Executive is not total" (emphasis added) [Steele Craik, AAO, Submission 3 to the RCAGA, 1974, p.3]. For budget purposes the Auditor-General's office, although not him personally, came under the control of PM&C. In 1988 these responsibilities were assumed by the DOF at the urging of the Auditor-General. He had argued that by

40. Although Normanton was referring to the British state auditor the comments are apposite to the Australian context.

separating consideration of his resource needs from that of the Prime Minister's portfolio his Office would be less likely to suffer in the competition for resources. His hopes of more equitable and liberal treatment under the DOF were soon shown to be unfounded. [JCPA, Report 296, 1989, p.67]. PM&C was still responsible for administering sections 3 to 9A of the *Audit Act* which cover the appointment of the Auditor-General.

Senator Walsh, when Minister for Finance, made it very clear that the finances of the state auditor would continue to be treated by the Executive like any other department: "neither the Auditor-General nor anybody else, as long as I am Finance Minister ... will be given ad lib access to the Government's bank account" [Senate debates, 26 November 1987, p.2479]. He informed the Senate that his government was opposed to financial autonomy for the state auditor: the state auditor could only expect to have "functional independence" ie. not be subject to ministerial direction in the conduct and programming of audits, an interpretation which seemed to accord with that of Auditor-General Monaghan [JCPA, 1988, Minutes of Evidence, *Inquiry into the AAO*, p.444]. Recent state auditors have recognised that the realities of government would mean that the state auditor cannot expect to achieve absolute financial independence [AAO, *Annual Report 1984-85*, 1985, p.6; Humphrey, Victorian Auditor-General, JCPA, 1988, Minutes of Evidence, *Inquiry into the AAO*, p.475, also Monaghan p.552]. The Executive would always need to control the total revenue raised and total expenditures [see also Great Britain, 1981, PAC, *Inquiry into the Role of the C&AG*, Minutes of Evidence, C.M. Clothier, Appendix v, p.12; Pois 1981, p.21]. However, it wasn't so much a "blank cheque" which the state auditor was seeking as more openness and consultation in deciding upon the resources to be made available to his Office [Taylor, Paper for the Senate, 28 August 1989].

In the absence of control over its own resources, Senators have argued that functional independence of the state auditor was a hollow pretence [Stone, Senate debates, 26

November 1987, p.2911 and Bishop, 1 December 1987, p.1111]. Financial control of the state auditor's Office allowed the Executive to indirectly, and thus unobtrusively, influence (or tyrannise as Senator Baume described the Executive's part in state audit) the state auditor's independence by hampering his work [Watson, Senate debates, 10 December 1987, p.2880; Tickner, HR debates, 6 April 1989, p.1153; Humphrey, JCPA, 1988, Minutes of Evidence, *Inquiry into the AAO*, p.475; Baume, Senate debates 6 April 1989, p.1229]. These concerns were also voiced at the time in the community [*Australian Financial Review*, Editorial, 1 December 1987]. On occasions when this implication has arisen, the Executive has been quick to reassure that it would not use its financial controls to

interfere unnecessarily in arrangements of staff ... The Auditor-General has been placed by the Audit Act in a very strong position, and his right to report at any time direct to Parliament is a sufficient safeguard against undue interference. *Greater power seems neither necessary nor desirable* (emphasis added) [*Royal Commission on Naval and Defence Administration*, "Special Report on the Auditor General", 1917-18-19].

By the completion of his short term as state auditor, Monaghan had reluctantly come to a contrary view about the role of the Auditor-General. In his submission to the 1988 inquiry into the AAO, he firstly commended the Executive's departments on their co-operation and "the formal recognition of the independence of the audit function". He then expressed grave concern about

the determination, by the auditee, of the resource provision to the Commonwealth's external auditor, and the consequent conflict of interest which confronts the Department of Finance.

I had entertained the notion that, in a practical sense, there could be conventional understandings which would ameliorate the impact of the *in-principle* anomaly. But experience during the 1986-87 budget processes led me to conclude that I had been mistaken in the earlier view.

My complaint was with the processes engaged in and attitudes expressed by the Department, and the ill that these bode for the AAO's future.

In its approach to the 1986-87 budget processes the Department seemed driven by its cash-saving mission, with little discernible regard to the importance of the external audit function ... [JCPA, Minutes of Evidence, *Inquiry into the AAO*, p.536].

Attacks such as this by Monaghan, and earlier by Brigden [see *Annual Report of the Auditor-General 1983-84*], were virtually unknown prior to the problems experienced with the introduction of efficiency auditing between 1978-84 [JCPA, 1988, Hewson, Minutes of Evidence, *Inquiry into the AAO*, p.604].

The apparent close relationship between the Executive and the state auditor has continued to sustain confusion in government departments as to the role of the state auditor in departmental administration. The Senate Standing Committee on Finance and Public Administration⁴¹ in 1991 highlighted the confusion and "misunderstanding of the role of an auditor". They thought it should be made very clear to all auditees in the public sector that

audit is not a service to management The purpose of audit is to provide an independent report on management, not a service to it. Management freedom should apply to management functions but the appointment of the auditor is the prerogative of the owners (Parliament) [Senate debates, 17 June 1991, p.4846].

As a result of a disagreement with the Treasurer, John Dawkins, Auditor-General John Taylor in May 1993 observed that

departments are not giving good advice about the independence of the Parliament's auditor. Departments seem to believe that I work for them and therefore I should be more circumspect. They are giving advice which is coloured by self interest; (they are) not interested in public exposure of their faults [*Financial Forum*, Vol.2, No.6, July 1993]

If the heads of departments and their staff can still be confused by the contradictions in the state auditor's mandate and independence, then the general public's understanding

41. This committee is mirrored in a corresponding Lower House committee of the same name.

also should be the cause of concern. In light of the long historical association of the Treasury with the state auditor in Australia, as adapted from Britain, it is hardly surprising that the state auditor, despite the obvious resource limitations he faced, has not always been insistent that the system should change. Steele Craik, formerly a First Secretary to the Treasury believed that "(g)iven the continued co-operation by the Public Service Board and the Treasury, I see no particular reason to urge any changes to the status quo" [AAO, *Fourth Submission to the RCAGA*, 1974, p.3].

Now and again the public have been permitted a glimpse of the financial incongruities of the state auditor. An early example was when the Auditor-General was criticised for deficiencies in the audit of defence accounts during World War I. He replied that he had been unable to meet all his obligations as a consequence of the Executive's economy measures. His reply gave some insight into Treasury tactics which were used to refuse the Auditor-General the resources which he considered he needed: "(t)here was no open and absolute refusal to supply the Auditor-General with the assistance he required. There was certainly delay ..." [*Royal Commission on Naval and Defence Administration* 1917-18-19]. The Auditor-General's reply indicated the unequal form of his relationship with the Treasury and the Treasury's sensitivity to questions concerning its role in the financing of the Auditor-General's Office. Very little had changed when the AAO referred in its *Auditing Standards* to this being a

sensitive area in relationships between the Auditor-General and the executive ... In some degree, arrangements for the Auditor-General's resource provision may be related to the executive government's financial situation and general expenditure policies. As against that, effective promotion of public accountability requires that the AAO be provided with sufficient resources to enable the Auditor-General to discharge his or her responsibilities in a reasonable manner [para.2.2.2.5].

Requests by the Auditor-General for more funding increased in urgency throughout the seventies and early eighties. In his first submission to the RCAGA Steele Craik, then

Auditor-General, drew the attention of the Commission to the steep growth in the size, variety and number of agencies which he was now obligated to audit. As an indication of this he noted that the public service had risen from 17,000 staff at federation to over 371,000 by 1973. In its then present form the *Audit Act* and the financing arrangements for his Office were unable adequately to cope with the "massive changes" in the "range and depth" of government [AAO, *First Submission to the RCAGA*, 1974, p.4]. By 1984 the situation, according to the AAO, had become critical. Between 1974 and 1984 budget appropriations had increased from \$9 billion to \$45 billion; the number of non-departmental agencies which were subject to audit had increased from 120 to 180. Between 1978 and 1984-85 Commonwealth expenditures which came under the responsibility of the AAO rose from \$71.2 billion to \$97.5 billion while Commonwealth revenue increased from \$63.7 billion to \$87.1 billion [JCPA, 1988, *Report 296*, p.27]. In the meantime staff levels at the AAO had remained almost the same throughout the period [Lidbetter 1985, p.7]. These pressures led the Auditor-General in his annual report of 1984 to give notice to parliament that his inability to have complete control of his staffing could impair his independence [AAO, *Annual Report 1984-85*, 1985, p.6].

Looking back in 1989 on the period of the late seventies and early eighties, the JCPA also drew Parliament's attention to the disparity between the growth in the numbers, kind and level of expenditures of government activities, and thus the size of the audit task, and the resources available to the Auditor-General [JCPA 1989, p.30]. Over the same period the audit task was also complicated and increased, thereby putting additional strains on the resources of the AAO, as a result of: technological advances in audit and in financial control and increased devolution of authority to agencies. The JCPA concluded in its 1989 report on the AAO that "changes in the growth of government activity, machinery of government, the environment for financial decision-making, audit technology and audit responsibilities have had a profound impact on the Government's external auditor" [p.37].

Throughout the eighties the Senate became increasingly concerned about encroachments on the state auditor's independence through pressures on his Office's resources. The Coalition Opposition maintained that

a strong and independent Auditor-General and Australian Audit Office are fundamental to the credibility of audit opinions and the effectiveness of the Auditor-General and his staff. Independence has diminished practical value unless the Auditor-General has the human and material resources to exercise his responsibility [Watson, Senate debates, 6 April 1989, p.1107].

It also worried the British PAC in 1980 that "however independent of Government the Exchequer and Audit Department may consider its audit functions to be, the department cannot be truly independent of the executive if its numbers and gradings are controlled by the Civil Service Department" (the equivalent of the Public Service Board in Australia) [Great Britain, 1981, *Inquiry into the Role of the Comptroller and Auditor-General*, p.Li; see also *Statistiques et Etudes Financieres*, No.136, April 1960 as referred to in Normanton 1966, p.300]. As a consequence of Executive control of audit staffing in Britain, first through the Treasury and then the Civil Service Department, Garrett contended that the auditors "have been kept at a very low level ... I think that to that extent, our state audit body has been less effective than it might be" [Great Britain, 1981, Minutes of Evidence, *Inquiry into the Role of the Comptroller and Auditor-General*, PAC, p.50]. Even though Garrett, and others, cast doubt on Executive disclaimers of involvement in state audit they could not give instances when the Executive through its main financial department had attempted *directly* to intervene in the work of the state auditor. This did not preclude the presence of far more pervasive forms of control through resources made available to the state auditor [Great Britain, 1981, PAC, *Inquiry into the Office of the Comptroller and Auditor-General*, p.Liii]. The nature of these controls meant that evidence of the direct cause-effect

relationship between these avenues of influence and specific instances of modifications to audit practice would not be obvious.

In 1985 Lidbetter indicated that "the most serious problem facing the state auditor's Office is in obtaining *and* retaining the necessary resources to fulfil our workload" [p.7]. The two problems are really one in the same issue. The state auditor is dependent upon outside agencies to determine the level of his funding, which affects the number of staff he can employ, and also how he can use this funding to remunerate his staff. His inability to set salary levels which were comparable with the private sector and even other departments has meant that most state auditors in recent years have had to deal with a high turnover of staff⁴² [AAO, *Fourth Submission to the RCAGA* 1974, p.4].

The most worrying aspect of resource limitations on the AAO and control of resource decisions by the AAO's largest and most important auditee, DOF, was the potential for this to be used to reduce the independence of the Auditor-General by limiting the number and type of audits he was able to conduct. Certainly this had been the case, the JCPA found in 1989, with the AAO's capacity to carry out discretionary efficiency audits [Report 296, p.62]. The Committee pointed out that the AAO was the only department in a relationship of dependency with DOF which had the responsibility to examine the DOF's efficiency and effectiveness. In the circumstance it was easy to understand why

Auditors-General tend to make mild statements in their reports on financial statements prepared by the Minister for Finance. Also of note is that no Auditor-General has ever subjected any part of the Department of Finance to an efficiency audit [JCPA, Report 296, 1989, p.68].

42. In 1973-4 the turnover was 16% of staff [AAO, *Fourth Submission to the RCAGA*, 1974, p.4] and 10 years later in 1984 25% [AAO, *Annual Report 1984-85*, 1985, p.6].

It would be hazardous for the Auditor-General to subject the auditee which feeds it to sustained, detailed and frequent investigation. Auditor-General Monaghan complained about "an inherent conflict of interest in the present arrangements, where the Department of Finance is the main protagonist in the game" [JCPA, Minutes of Evidence, Inquiry into the AAO, 1988, p.391]. "For this reason", the JCPA concluded, "it was wrong in principle for the Department of Finance to continue to have the final powers of advice on the Australian Audit Office ..." [JCPA, Report 296, 1989, p.68].

2.6 CONCLUSION

In this chapter it has been shown that state audit has come to be accepted as an essential ingredient to Westminster governance. State audit performs two broad roles, one on behalf of Parliament and one on behalf of the Executive. Thus, in practice, state audit is not the exclusive implement of the Parliament. State audit serves Parliament by providing the means to make the Executive financially accountable to Parliament. In the history of state audit this is only a relatively new innovation for, as Chapter 3 will show in some detail, prior to the 19th century state audit was an agency of the Executive. For the Executive, state audit has come to provide the means with which it can *signal* to the electorate its competent management and respect for the conventions of Westminster financial accountability. Of course, the Executive is only interested in favourable judgements from the state auditor. Consequently, control or management of state audit becomes an important prize for the Executive. The imprimatur of the state auditor would, however, be of little value if he was perceived by the electorate to be influenced by the needs of the Executive. Projection of the state auditor as an independent officer is therefore essential if state audit is to be of any use to the Executive as a signalling device. The trick is to come up with the means of creating a convincing case for the independence of the state auditor without actually aligning the image with a corresponding substantive basis. In other words, the Executive wants the state auditor to *act* independently but not to *be* independent. It wants the state auditor to carry out his work of certification but does not want this to be beyond the control of

the Executive. Accordingly, the Executive has maintained tight control over the finances of the state auditor.

In order to achieve its goal of being seen to support independence for state audit the Executive has resorted to reliance on the personal characteristics of the state auditor and to provisions of the audit legislation which purport to give the state auditor considerable guarantees of independence. Until recently both have been very effective in sustaining an image of an independent state audit function but without placing the state auditor beyond the reach of the Executive. Strong and impressive audit legislation guarantees personal independence for the individual who is appointed as state auditor. To carry out his work the state auditor needs to appoint auditors. What has not been widely realised, or if it was it only created intermittent problems because of the limited form of audit up to the 1970's, is that the independence clauses in the legislation were not transferable to the Office of the state auditor. While he was protected this did not apply to any other aspect of state audit. This meant that, in the absence of provisions to ensure that the state auditor could carry out his work as intended by the spirit of the legislation his own independence had little value in ensuring a strong and effective audit function. The state auditor may have had the authority to conduct audits but he was circumscribed in his powers to audit.

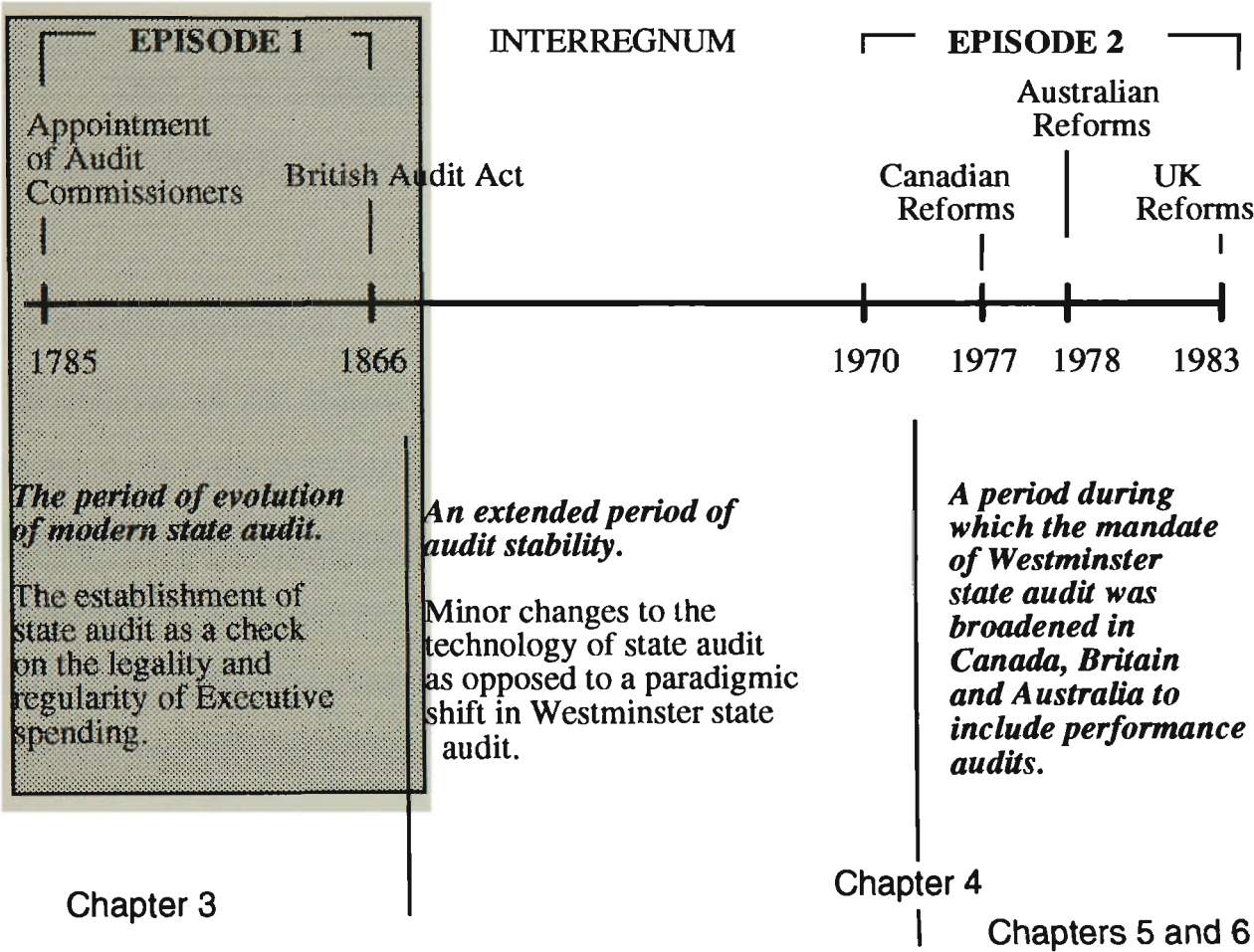
Through legislation and the emphasis on the character of the state auditor the Executive has controlled a discourse of independence which has been successful in sustaining an image of a robustly independent audit function. A great strength of the way the discourse has been constructed since the middle decades of the 19th century is that it has rarely been questioned and when criticised has been able to rebuff the criticisms, at least until the 1970's. In the next chapter the 19th century genealogy of the discourse is examined.

CHAPTER 3

THE EXECUTIVE AND STATE AUDIT IN BRITAIN 1780-1866: THE ANTECEDENCE OF AUSTRALIAN COMMONWEALTH AUDIT

An aura of the obvious and the unchallengeable can and does emerge out of the residues of past actions which accounting represents. ... (D)ecisions give rise to accounting residues which can be and are used independently of the contexts out of which they emerged [Hopwood 1984, p.168].

EPISODES IN THE EVOLUTION OF STATE AUDIT



CHAPTER 3

THE EXECUTIVE AND STATE AUDIT IN BRITAIN 1780-1866: THE ANTECEDENCE OF AUSTRALIAN COMMONWEALTH AUDIT

3.1 INTRODUCTION

The purpose of this chapter is to trace the evolution of state audit legislation and beliefs about the independence of the state auditor throughout the period 1785-1866 in Britain. This period is taken for this thesis as the first episode or epoch in the evolution of state audit. From this period comes the form of state audit with its attendant beliefs about state audit independence which were adopted by the newly formed Australian Commonwealth Government in 1901. By providing the 19th century genealogy of the discourse of independence, the main features of which were discussed in Chapter 2, this chapter in a sense constitutes the core of this thesis.

Prior to the 19th century the state auditor was not an officer independent of the Executive, nor did he have a close relationship with Parliament. The state auditor was employed as an agent of the Executive; even more particularly the auditor was not infrequently seen as an instrument of the Treasury and as a consequence a subordinate of the Treasury [*Origin of the Exchequer and Audit Department*, "Relations Between the Audit Office and the Treasury", 1883; Hart 1960, p.93].

Throughout the 19th century parliamentary financial control over the Executive strengthened during an extended period of weak governments and a time of confident, reforming parliaments. Prominent in this process were state audit reforms and the extension of Treasury control over all departments of state. The increasing potency of the Treasury's centrality in state finances was coincident and commensurate with improvements in state audit. Bolstering of the Treasury's ex ante spending controls

would have achieved little without the means to verify that its directions had been followed; Treasury authority was heavily dependent upon the audit process. Placing a Treasury trained person as the head of state audit was an additional insurance for the Treasury.

At the beginning of the 19th century the Treasury was an insignificant department still enmeshed in the stultifying financial anachronisms of the ancient office of the Exchequer. By the close of the century the Treasury had become, through a process of gradual accretion, the most important state department [Roseveare 1969, p.147]. A large measure of the growth in Treasury control in the 19th century was accomplished through its controls over civil service personnel. These controls were greatly strengthened by the rise of a uniform civil service in the second half of the 19th century with its uniform scales of pay and status and common procedures between departments. These trends also facilitated an improved audit.

The 19th century marked the creation of the modern state audit office and the development of practices and principles which were to dominate state audit well into the next century. At the heart of the state audit reforms were the doctrines of auditor independence and audit of the Executive on behalf of Parliament by placing appropriation audits at the centre of the state auditor's mandate. Although the principal client of the state auditor had changed from the Executive to the legislature as a result of the 19th century audit reforms, the nature of the state auditor's independence had not been altered. With the assistance of a much stronger and assured Treasury, now paradoxically seen by Parliament as essential to its financial superintendence of the Executive, the Executive was able to maintain its high degree of influence over state audit [Bridges 1964, p.13]. As a result, an independent state auditor in Britain has been a fiction perpetuated through a discourse surrounding state audit independence

primarily by a self serving Executive: until the audit reforms of 1983¹, the state auditor had never been independent from the Executive.

The discourse of independence in state audit encompasses five phases in the evolution of modern state audit which has been characterised by Dewar as being "cautious and at times faltering" rather than following an "orderly march towards carefully considered, defined and agreed objectives" [1992, p.3]. Roseveare considered the "arid technicalities" of state audit as the reason for the slow progress of audit reform [1969, p.142]. Arcane audit details which, according to Sir Francis Baring², made audit a "wearying and uninteresting subject" could not hope to generate the enthusiasm needed to create sufficient momentum for reform [HC debates, 24 April 1856, col.1450]³.

In the first phase, the period prior to 1785, audit was very irregular and the province of a large number of diversified Executive officers. Audits instigated by Parliament were rare responses to episodes of extreme public pressure precipitated by intermittent financial crises⁴. The period 1785 to 1832 could be referred to as the phase of consolidating *Executive* audit. During this period the state auditor was not independent of the Executive in any practical or real sense; the state auditor was a subordinate *Executive* department which carried out audits for the Executive. Audits were for the purpose of detecting fraud and to encourage honesty in dealings with government departments. In the period 1832 to 1866 state audit on behalf of Parliament began to emerge. Like any transition period, during this third phase elements of the receding past and of the emerging future were mixed so that state audit had an uncertain complexion. The fourth phase was marked by the passing of the *Exchequer and Audit*

1. *National Audit Act 1983*, Chapter 44.

2. In 1861 the first chairman of the Committee of Public Accounts.

3. Similar condemning comments were made by the Chancellor of the Exchequer on the same day [col.1458].

4. The appointment of Commissioners of Public Accounts in 1690-7, for example, was an attempt by the Executive to assuage public indignation over executive excesses [Downie 1976].

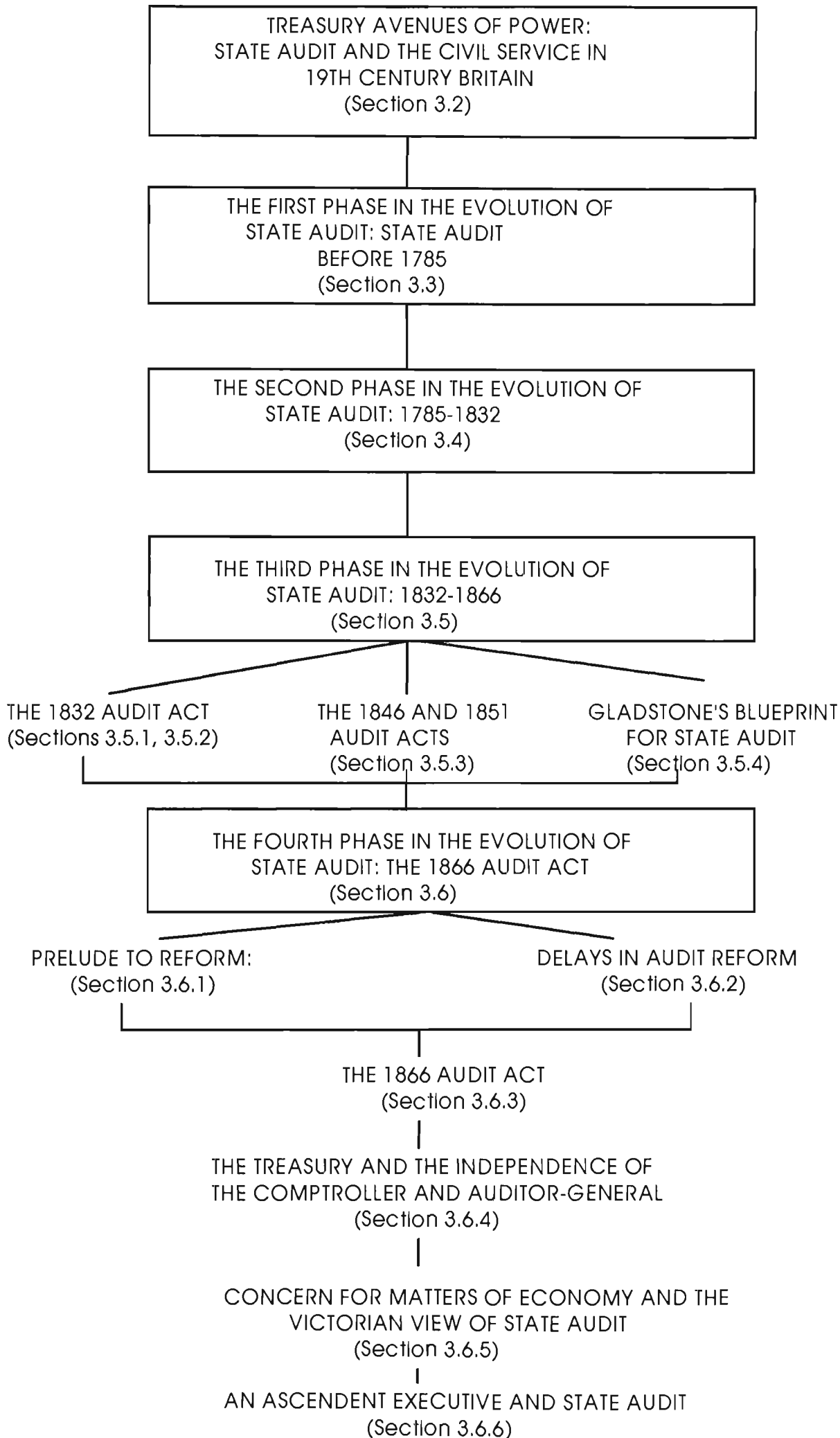
Departments Act in 1866 [*1866 Audit Act*] which introduced the phase of modern state audit by confirming the now well established commitment to appropriation audits on behalf of Parliament. During the fifth phase state audit emerged from the narrow Gladstonian⁵ image of audit to become a significant agent in the promotion of efficiency in government. Emphasis will be on the third and fourth phases for it is within this period that the philosophy, goals and technology of Australian state audit after 1901 were derived. Enactment of the final, fifth, phase in Australian state audit is covered in Chapters 5 and 6.

It was during the third and fourth phases of modern state audit evolution that the Treasury played an increasingly prominent part. In order to place Treasury control in the context of 19th century public administration the next section of this chapter outlines the interconnectedness of Treasury power, the establishment of a permanent civil service and state audit in the 19th century.

The direction of the chapter can be summarised as follows:

5. William Ewart Gladstone (1809-98): Under-Secretary of State for War and the Colonies January to April 1835; Vice-President of the Board of Trade 1834-5; Secretary of State for War and the Colonies 1845-6; Chancellor of the Exchequer December 1852-February 1855 (he resigned in protest to the government's decision to give into Opposition pressure for a committee of enquiry, to be known as the Roebuck Committee, into the debacle of the Crimean War), June 1859-July 1866; Prime Minister December 1868-January 1874, April 1880-June 1885, February to July 1886, August 1892-March 1894.

CHAPTER 3 PLAN



3.2 TREASURY AVENUES OF POWER: STATE AUDIT AND THE CIVIL SERVICE IN 19TH CENTURY BRITAIN

The main purpose of this section is to implicate the 19th century British Treasury in the creation of the discourse of state audit independence. The English Treasury in the 19th century was the product of a long period of development. It was an outgrowth of the ancient office of the Exchequer, emerging at the time of the English Revolution in 1688 as a public department in its own right [Bridges 1964, p.17]. It is also from this date that the Treasury's symbiotic relationship with the House of Commons can be detected.

The history of the British Treasury in the 19th century is inextricably involved with the maturation of state audit and the establishment of a permanent civil service. State audit functioned as an outrider department of the Treasury; the Treasury was the effective master of state audit [Wright 1969, p.xxiv]. State audit was a means, not the only one, by which the Treasury extended its control in the absence of formal legislative backing. During the mid 19th century when a permanent career civil service was established in Britain the Treasury used the state auditor as a convenient and potent means to spread its control throughout the emerging departments of state. Legislated audit provided the means with which the Treasury could coerce departments to defer to the Treasury.

Parris [1969] and Wright [1969, Introduction] argue that prior to 1820-30 there was no civil service in the modern sense. Instead, Executive functions were carried out by officers who usually held their position for the duration of the government which sponsored them. Patronage was a key feature of public sector placements. Indeed, it was accepted as one of the perquisites of office; it was a means with which to repay loyal supporters⁶. According to Parris, the increasing complexity of government after

6. For some parliamentarians this was more of a nuisance than a benefit of office with numerous supplicants and their insistent families expecting favourable consideration [Wright 1969, Introduction; *Quarterly Review*, Vol.133, July to December 1872, p.243].

1830 made it more necessary to have an experienced, knowledgeable permanent administration to put into place government policies. Thus, Parliament sanctioned the rise of a strong and influential civil service. Prior to the early nineteenth century Parliament had been very reluctant, because of latent suspicions of Executive motives born out of the constitutional conflicts of the 17th century, to extend the powers of the Executive by allowing them a sophisticated civil administration. Reliance upon specific-case legislation rather than general statutes also betrayed Parliament's distrust of the Executive. Thus, for example, there were separate statutes for each Board of Health and Board of Education. This began to change in the 1830's. With the waning of parliamentary constitutional apprehensions of the Executive general statutes came to prominence. These general statutes could only be put into practice with the aid of an effective civil service.

The reforms and the investigations of Trevelyan and Northcote in the 1850's into the civil service and their final damning report in 1854 [Great Britain, *Report on the Civil Service*] confirmed that Executive departments were a loose collection of fiefdoms, each of which was responsible for appointing its own personnel. The result of this, found Trevelyan and Northcote, was that departments became the habitation of

the unambitious, and the indolent or incapable ... Those whose abilities do not warrant an expectation that they will succeed in the open professions ... and those whose indolence of temperament or physical infirmities are unfit for active exertions ... The result ... is that the public service suffers both in internal efficiency and in public estimation [Great Britain, 1854, *Report on the Civil Service*, p.4; also *Quarterly Review*, Vol.133, July to October 1872, p.243; for further criticism see *The Westminster Review*, January to April 1876, New Series, Vol. XLIX, p.467]⁷.

Movement between departments was most unusual. Each department regarded itself as a separate entity and not part of a single cohesive service [Finer 1937, p.29; Campbell

7. There was no shortage of public officials to refute the claims in the 1854 Report. See *Quarterly Review*, Vol.108, July to October 1860, p.577.

1965, pp.14,17; Wright 1969, Introduction]. The results of this, according to the 1854 *Report on the Civil Service* were

narrow views and departmental prejudices ... (as well as) considerable inconvenience ... from the want of facilities for transferring strength from an office where work is becoming slack to one in which it is increasing [p.8].

It is, therefore, misleading to refer to a 'civil service' much before the 1860's⁸. The absence of a unified service at the time of the Trevelyan and Northcote Report meant that the Treasury was precluded from establishing unchallenged control over departments. Each department effectively determined its own conditions of employment and remuneration policies. So diverse were the arrangements in departments that Trevelyan later observed that "the internal arrangements and regulations of the different departments ... (were) very imperfectly understood at the Treasury" [Sir Charles Trevelyan 1875, in *The Nineteenth Century*, Vol.XX, July to December 1886, p.500].

Despite most of the recommendations in the Trevelyan and Northcote⁹ Report [1854] not being immediately implemented, development of the civil service did proceed more certainly from the late 1850's¹⁰. Accompanying the rise of a permanent civil service was the introduction and extension of more formalised accountability mechanisms. The establishment in 1861 of the Public Accounts Committee and the *Audit Act in 1866*,

8. Trevelyan had been informed when he joined the Treasury in 1840 that "there was no Civil Service but only the establishment of this or that civil office" [Trevelyan to Measor, 1867 as quoted in Wright 1969, footnote 4, p.xxiii].

9. For details of the careers Trevelyan and Northcote see Wright [1969], pp.xvi-xxii. Trevelyan was Secretary to the Treasury from 1840 to 1859.

10. By an Order in Council of the 21 May 1855 the Government appointed the first Civil Service Commissioners who were given the authority to oversee conditions of appointment to government service. This was no means a universal coverage of all departments. It was not until Orders in Council of the 4 June 1870 and 19 August 1871 that all candidates for the civil service were required to sit examinations set by the Civil Service Commissioners. It was left to the Civil Service Inquiry Commission (Playfair Commission), instituted by Gladstone, in 1874 to carry further the work of Trevelyan and Northcote. Despite significant advances towards a unified civil service in the closing decades of the 19th century there were still frequent complaints about the parochial nature of the civil service [Great Britain, 1888, Minutes of Evidence, Select Committee on Army Estimates, *British Parliamentary Papers (BPP)*, Vol.IX, Qs. 5003-5005].

both of which reflected the conclusions of the Select Committee on Public Monies in 1857, could be seen as a response by Parliament worried about the possibility of increasing Executive power, through the civil service, at the expense of Parliament. The *1866 Audit Act* consolidated recent changes in accountability which had accompanied changes in public administration. Passage of this Act was the most significant development in public sector accountability since the introduction of annual appropriations after 1689. It indicated that a new form of governance had been established after a period of governance transition which covered the period after 1830¹¹.

In the absence of a matured, unified civil service, according to Wright [1969] the Treasury's power in the 19th century was far less considerable than it is sometimes made out to be. Wright has argued that the Treasury's control was largely illusory in the sense that it depended upon the 'process of control' as opposed to any specific and persuasive 'controls'. The Treasury did not have any firm basis to refuse departmental demands for money to meet increased expenditure [see Great Britain, 1887, Minutes of Evidence, Lord Welby, Royal Commission on Civil Establishment, *British Parliamentary Papers (BPP)*, First Report, Vol.XIX, pp.1-9]. When departments requested extra money each case was treated separately; there was in the early part of the century little attempt on the Treasury's part to generalise its policies and decisions from one department to others. Instead, control was exercised by the Treasury by requiring departments to pass through a series of 'control gates'. At each level the Treasury relied upon slowing down the pace with which Departmental demands made their way through from initial request to success or withdrawal.

The Treasury may not have been able to thwart or refuse a department in a particular instance when it came asking for extra money, but its delaying and nit picking

11. This form of governance, which has been referred to in Chapter 2 as Governance Model B or the 'administrative model', persisted until well into the 1970's in Australia, and in most other Westminster democracies.

posturing was designed to get the department to think very carefully about the present request and any other future financial demands. It also sought to reduce the momentum, dissipate the energy of the request and, if possible, cause the department to lose interest by making the process of supplementation too difficult and inconvenient [see *Contemporary Review*, Vol.LXVIII, July to December 1895, p.331; *The Nineteenth Century*, Vol.XXIV, July to December 1888, p.113]. The Earl of Middleton, reflecting upon his time as Secretary for War, described the Treasury as "ruthless" and the cause of "unending struggle" in attempts to obtain extra funding [1939, p.126]. Robert Hamilton referred to "perpetual clashes with the Treasury" [Hamilton to Gladstone, 1865, quoted in Wright 1969, p.344].

Seeking increases in funding over and above that provided for in the budget followed an implied script, the existence of which all the main players were aware. The play consisted of several acts. Firstly, any applications for increased funding were more often than not met with requests from the Treasury for more information. The application, with suitable additional documentation, would be resubmitted. According to Wright [1969] these early submissions were not always formal. He has argued that prior to the closing decades of the century the Treasury wanted to avoid a full confrontation with a department over requests for additional funding and thus would seek to arrive at an agreement through informal discussion. If these were unsuccessful then the Minister might discuss the position with his colleague the Chancellor of the Exchequer on a personal level. Success at this stage would depend on the relationship between the two men, the status of the department seeking the extra funding and the status of the Minister.

Wright [Sutherland 1972, p.214] argues strongly that good personal relationships between Ministers, upper levels in departmental hierarchies and the Treasury were essential to the work of the Treasury and departments. He notes that should the Treasury and a department not be able to come to an agreement and, on the rare

occasion the dispute was referred to the Cabinet for adjudication, the result usually was determined by the personal relationship between Ministers. Particularly important in the network of personal relationships in which the Treasury's theatre of financial control was enmeshed was the relationship, after 1866, between the Comptroller and Auditor General (C&AG) and the Chancellor of the Exchequer. This was almost inescapable given that:

- all C&AG's in the 19th century had spent part or all of their career in the Treasury, an institution well known for the resilience and potency of the socialisation of its employees into the culture of the Treasury
- the C&AG was responsible for verifying the decisions made by the Treasury and executed by the departments
- the comptrollership function of the C&AG required the C&AG to authorise the final release of money from the Bank of England after receiving Treasury notification that the expenditure was approved under the Appropriation Acts. This required the two officers to be in frequent contact
- the common ideology of the C&AG and the Treasury in monitoring and promoting limits to government spending.

The supplementation ritual enacted by the Treasury and the departments was recognition by the Treasury that, for most of the 19th century, it did not have sufficient controls to exercise control through formal pronouncement. It was not until the latter decades of the 19th century that departments came to recognise the Treasury's role in developing general guides to procedures for all departments. By then a constitutional bureaucracy had arrived. In the meantime, any opportunities to improve its authority would therefore have been welcomed by the Treasury. Accordingly, the Treasury's heavy involvement in the audit of Executive accounts and its determination to prevent its influence waning was all the more important in consolidating its position throughout the evolution of modern state audit.

The next section commences the detailed study of the first four phases of state audit development referred to in section 3.1 above. The purpose of this examination is to expose the extent of Executive (Treasury) involvement in state audit and construction of a discourse of independence but also to show that the Executive's role was consistent with Westminster governance as it developed in Britain in the 19th century.

3.3 THE FIRST PHASE IN THE EVOLUTION OF STATE AUDIT: BRITISH STATE AUDIT BEFORE 1785

Throughout the 18th century the relationship between Parliament and the Executive was one of an exaggerated desire to ensure a separation of their respective powers. Only by "destroying the equilibrium of power between one branch of the legislature and the rest" would the constitution be threatened [Bentham 1776, *Fragment of Government*]. Parliament, therefore, took no detailed and direct interest in the civil administration¹² of the King's Executive [Chester 1981, p.34]. The high ideals of the constitution did not prevent the Crown from regularly attempting to influence Parliament¹³ through the use of honours and sinecures, which Castlereagh observed were "more likely than any others to secure parliamentary influence" [Quoted in Foord 1947, p.499]. Influence through the use of patronage, argued Sir James Graham¹⁴, succeeded the royal prerogative after the Revolution as the means by which the Crown sought to maintain its supremacy in both Houses of Parliament [Graham to Gladstone, 4 January 1854, in Parker 1907, Vol.2, p.212]. By allowing the Crown to buy loyalty to its causes, patronage exercised through the granting of sinecures and titles diminished the independence of public officers, thereby, argued Burke, weakening the

12. Parliament, however, was keenly interested in the Executive's appropriations for the army and the navy [see Funnell 1989].

13. Blackstone referred to the Crown's influence as being "most amazingly extensive" [Quoted in Foord 1947, p.484]. This applied to both the House of Commons and the House of Lords [see Hogan 1991, p.148].

14. Secretary to the Navy. See section 3.5.1 for details of Graham's career and contributions to public administration.

vigilance of the constitution and undermining Executive efficiency [see Burke in Cromwell 1968, p.6]. Dunning's Resolution in the Commons on 6 April 1780 that "the influence of the Crown has increased, is increasing, and ought to be diminished" drew attention to the extent which patronage had reached in Parliament. It was also the start of the decline of royal patronage¹⁵. Commencing with Pitt's administrative reforms in 1789 and 1798, sinecures were progressively reduced throughout the 19th century by legislation such as 47 Geo.III. sess.I, c.12; 48 Geo.III.c.9 and 51 Geo.III. c.71.

Consistent with Parliament's non-interventionist role in civil government, the Civil List appropriation for most of the 18th century was made as a single vote appropriation¹⁶. Parliament did not want to know how the King spent his money on the royal household¹⁷ or on the civil government; Parliament only wanted to be certain that limits were placed on the level of spending. It was the King's government (at this time) and it was accepted as the King's constitutional right to govern as he saw fit¹⁸ [Chubb 1952, p.9; Blackstone in Roseveare 1969, p.87]. The Civil List Funds were therefore accepted as a means of reducing any constitutional friction between the Crown and Parliament [Cromwell 1968, p.5].

15. In September 1780 between 40 to 50 members of Parliament held very profitable government offices, a further 30 had been given sinecures and 60 were in the armed forces [Chester 1981, p.34].

16. In contrast, military appropriations were divided into numerous sub votes and required the *annual* approval of Parliament.

17. In the Civil List the monarch was granted income for life to cover the operations of his/her civil government and to meet the expenses of the royal household. The intention of Parliament was to give the sovereign sufficient income to meet all his/her needs, both personal and government. They were expected to live within their income, except during periods of emergency such as wars. The reality was somewhat different. Even in the absence of war Parliament was frequently called upon to vote amounts to cover large accumulated deficits in the royal budget [see Great Britain, 1902, Committee on National Expenditure, Appendix 13, p.228].

18. This also meant that legislation was the responsibility of the Executive. It was not until the 1830's that Parliament began to take an interest in the legislation of the Executive. As a consequence, the period prior to the early 19th century was an era of 'Gesellschaft' legislation which was aimed at individual rights, as opposed to taking the broader socially based approach of bureaucratic-administrative law [Beales 1969, p.50]. Disputes over the respective constitutional prerogatives of the legislature and the monarchy continued to surface throughout the 19th century. For example, in 1872 when it was proposed to stop the purchase of commissions in the army Queen Victoria protested that this was an infringement by the legislature of her constitutional powers. Not wishing to precipitate a constitutional crisis in the face of the government's determination to have its way, Queen Victoria eventually relented.

As a consequence of the constitutional battles of the 17th century Parliament was concerned that the Executive did not become too strong, too powerful and thereby present a threat to the position of Parliament¹⁹. Parliament was not concerned about making the Executive accountable for its financial stewardship. For Parliament to peer too closely at the Executive's finances was seen as not only unconstitutional but the means of impeding government:

could any Ministers carry on the business of the public if any gentleman in this House had the right to call for ... an account? The public can never be advanced by calling for accounts which destroy your confidence in them [Contemporary views 1775, as quoted in Roseveare 1969, p. 91].

The legislature's hands-off approach to the Executive meant that audit was the concern of the Executive. Prior to 1785 state audit was distributed over several officers, each with a specialised sphere of activities which it jealously guarded. The most important auditors, although not the oldest²⁰, were the two Auditors of the Imprest, an ancient office of the Exchequer²¹, who were primarily concerned with the accounts of people receiving money from the Exchequer by way of imprests, hence their title. They were appointed by letters patent to

audit and determine Accounts by and with the advice, authority, and consent, of the Lord High Treasurer, or Lords Commissioners of the Treasury and the Chancellor of the Exchequer [Great Britain, 1810, Committee on Public Expenditure (1810 Committee), *BPP*, Fifth report, p.282].

The Lords of the Treasury and the Chancellor of the Exchequer were, therefore, "parties to the audit of every account" although not all state accounts were audited, for only 'certain' accounts were referred to the auditors by the Treasury [Great Britain,

19. While constitutional fears no longer dominated the agenda of Parliament in the 19th century, they were not completely forgotten. A suggestion in 1857 for the reduction of traditional controls over the issue of money from the Exchequer was condemned by the Comptroller General of the Exchequer, Lord Monteagle, who was shocked to "find the necessity of parliamentary vigilance, jealousy and even suspicion, brought into question. I had considered it to be one of the least controversial and elementary truths" [Great Britain, 1857, Committee on Public Monies, Appendix 3, p.563].

20. The Auditor of the Exchequer, established in 1314, was both the oldest and longest serving office of audit until its duties became part of the Office of Comptroller General of the Exchequer in 1834.

21. They were first appointed in 1559, the second year of Elizabeth I's reign.

1810, Committee on Public Expenditure, Fifth report, p.282]. The Auditors of the Imprest were bound to obey all relevant Treasury directions with all audited accounts being transmitted to the Treasury²² before the transactions recorded in the accounts were finally allowed and the accounts passed. The Treasury had the ultimate power to overrule any disallowances²³ by the Auditors of the Imprest and to direct the Auditors to 'declare' or pass accounts when it was contrary to their recommendations. The Treasury's right to decide which accounts would be audited was used to good effect to restrict the intrusions of the auditors into departments. Certainly the Treasury ensured that its own accounts remained out of the reach of its insignificant subordinate. As a consequence of limited powers and being "entirely dependent upon the Treasury"²⁴, concluded the Committee on Public Expenditure in 1810 (1810 Committee), the Auditors "could ... not be considered as constituting an efficient check on the irregularities of public expenditure" [Fifth report, p.383]²⁵. The Auditors of the Imprest were recognised as being very inefficient, the offices in reality being a form of Executive patronage whereby very profitable sinecures were given to a fortunate few [1810 Committee, Fifth report, p.382]²⁶.

The Auditors of the Imprest were paid for the accounts they audited on the basis of rates which were determined by the Treasury²⁷. In the case of the accounts of the Chief Cashier of the Bank of England, the Auditors received a fee of 100L for every one million of deposits, returning to the Auditors in 1784 a total fee of 20,000L. During

22. The accounts to be audited by each of the two Auditors of the Imprest were distributed by the Treasury [Great Britain, 1810, Committee on Public Expenditure, Fifth report, p.382].

23. If a recorded transaction could not be supported with appropriate authorisations and documents it might be 'disallowed' as part of the accountant's discharge.

24. The Treasury could even determine the organisation of the Auditors and distribute the accounts between the auditor's divisions as it saw fit.

25. See Appendix 3.1 of this thesis for details of the conclusions of the 1810 Committee.

26. The Auditors of the Imprest were paid by the departments which they audited. So profitable were these offices that upon their abolition in 1785 each of the Auditors were bought-off with a pension of 7,000L. to compensate them for the loss of their "Profits and Emoluments" [25 Geo.III. c.52, s.III].

27. For a brief period after 1649 the Committee of Public Revenue substituted a fixed salary of 500L for the generous rates determined by the Treasury. At the Restoration of Charles II in 1660 the system of payment by fees was reintroduced by the Treasury [Bromley 1850, p.1].

the previous year Auditors earned over 16,000L each²⁸. Upon representations from the Auditors the rates of payment could be raised by the Treasury if they were convinced that there had been a significant expansion in a department's accounts. It was not unknown for the Lord High Treasurer to grant unsolicited increases in the remuneration of the Auditors "for the pains" taken by the Auditors in finalising particularly difficult accounts [Bromley 1850, p.1].

Coincident with audit by the Auditors of the Imprest a number of other, more specialised auditors existed, all of whom worked on behalf of the Executive²⁹. The most important of these were: the Auditor of the Excise, established in 1643 and abolished in 1849³⁰; the Auditors of the Land Revenue, who were formed in 1511 and closed in 1799³¹; the Comptrollers of Army Accounts, established in 1703, expanded in 1806³² and 1815 and finally abolished in 1835 and Commissioners for Auditing the Accounts of Ireland who operated between 1783 and 1832³³. Like the Auditors of the Imprest, all these audit bodies were concerned with departments which collected revenue and they were all under direct Executive control. At different times numerous other audit bodies were temporarily formed, mainly to meet the exigencies of war³⁴ or to meet the needs arising from expansion of the Empire³⁵.

28. The work of audit was most certainly not carried-out by the Auditors of the Imprest but by their staff of six or seven clerks [Bromley 1850, p.1].

29. In 1785 the Auditors of the Imprest were responsible for auditing the following accounts: Customs, Post Office, Salt Office, Wine Licences, Paymaster of the Forces, Chief Cashier of the Bank of England, Master of the Mint, Warden of the Mint, Treasurer of the Navy, Surveyor of the Works, Solicitor to Treasury, Treasurer of the Chamber, Lord Chamberlain, Master of the House, Clerk of the Hanaper, Master of the King's Robes, Keeper of the Wardrobe and the Army Extraordinaries [Bromley 1850, p.2].

30. By 12 Vic. cap.1

31. By 39 Geo.III. c.83

32. 46 Geo.III c.141.

33. 2&3 Will.IV. c.99.

34. For example between 1813 and 1819 one of the Commissioners for Auditing the Public Accounts was seconded to Wellington's army as the Auditor General of Accounts in the Peninsula [53 Geo.III. c.150].

35. The Commissioners for West India Accounts were appointed in 1806 by 46 Geo.III. c.80 and the Commissioners for Colonial Accounts in 1814 [54 Geo.III c.184] which absorbed the West Indian Commissioners in 1822 [1&2 Geo.IV. c.121].

Although the Executive dominated audit, Parliament now and then did show some interest in the Executive's accounts [see Roseveare 1969, p.67]³⁶. Mounting discontent with the state of the accounts of Charles II but in particular accusations that the high cost of his wars resulted from extravagance, fraud and applications of money for purposes other than that approved by Parliament, precipitated the appointment throughout his reign (1660-1685) of a series of Parliamentary Commissions of Accounts [Great Britain, 1857, Committee on Public Monies, Appendix 3, p.589]. In 1678, for example, 19 Caroli. c.9 empowered nine Commissioners to examine under oath all officers of the Executive who were accountable for or received money from Parliament. Unlike later auditors, some of the early Commissioners during Charles' reign had very strong powers of coercion, including the authority to imprison for perjury or refusal to attend before the Commissioners. In addition to pronouncing upon the accuracy and honesty of the Executive's accounts the Commissioners were also expected to suggest improvements to the public accounts and to report to the King and both houses of Parliament [Great Britain, 1810, Committee on Public Expenditure, Fifth report, p.383].

Contrary to the apparently extensive powers of some of the Commissioners appointed by Parliament in the closing decades of the 17th century, in practice they were quite ineffectual in bringing about any improvement in the public accounts because they could not obtain the cooperation of the Executive. According to Rubini, the Commissioners of Public Accounts appointed between 1690-97 were considered a constitutional threat by the King [see Downie 1976, p.34] and departments regarded the enquiries of the Commissioners as impertinent intrusions in departmental affairs. Consequently, departments set out to ensure that the Commissioners work was made as difficult and as inconvenient as possible. When called upon, departments either

36. One of the earliest, if not the earliest, audits on behalf of Parliament was during the reign of Edward III when Parliament appointed auditors to question the stewardship of William de la Pole and John Chawnells. Auditors were also appointed in 1406, 1625 and 1675 [Great Britain, 1857, Committee on Public Monies, Appendix 3, pp.588-89].

openly refused to provide the accounts sought by the Commissioners or procrastinated by feigning ignorance³⁷. Much of the difficulties experienced by the Commissioners between 1690-97, maintain Downie [1976, p.43] and Roseveare [1969, p.74], can be attributed to the use of the Commissioner's mandate as a biased political weapon. The examinations of the Commissioners had none of the features of an audit in the form it was to take in the 19th century.

As a consequence of the financial problems experienced by the Executive during the American War of Independence, the resulting delays in finalising accounts and the incomplete audit coverage by the Auditors of the Imprest, seven Commissioners of Audit³⁸ were appointed in 1780, on an annual basis, to audit the 'public accounts' and to report to both the Executive and Parliament [20 Geo.III. c.54]. The requirement that they report also to Parliament, however, did not constitute a significant change in the allegiance of audit from the Executive to Parliament for the Commissioners' examinations were to be directed to the detection of fraud. The Commissioners of Audit were given extensive powers, including the right to examine accountants under oath, to ensure the cooperation of the departments. Although the Commissioners were charged with also recommending "a more expeditious, more effectual, and less expensive method of collecting, issuing, expending, and accounting" for money in the hands of the Executive, their 15 reports managed to have little impact on public sector accounting [Great Britain, 1810, Committee on Public Expenditure, Fifth report, p.384].

The economical reform movement initiated by Burke's speech in the House of Commons on the 11 February 1780³⁹ and the financial crisis precipitated by the loss of

37. Commissioner Sir Peter Colleton, for example, complained to his diary about the difficulties in obtaining accounts from the 'great departments' of the army and the navy [Downie 1976, p.44].

38. Their full title was Commissioners for Examining, Taking and Stating the Accounts.

39. The speech was entitled "Speech Presenting to the House of Commons a plan for the better security of the independence of Parliament, and the economical reformation of the civil and other establishments".

the American colonies were to cause Parliament to rethink its traditional posture towards Executive finances, including state audit. Burke's Civil Establishments Act in 1782 [22 Geo.III, c.82] which, amongst other things, divided the civil list vote into eight sections and thus made more visible the activities of the Executive, clearly indicated a change in the mood of Parliament which ushered in the second phase in the evolution of modern state audit. Study of audit in this next phase emphasises Executive control through the Treasury.

3.4 THE SECOND PHASE IN THE EVOLUTION OF STATE AUDIT: STATE AUDIT CONSOLIDATED 1785-1832

Two trends in state audit are most important in this period: the consolidation of various audit offices and the strengthening of Treasury control over Executive departments, including the state auditor.

Audit was put on a more permanent and regular footing in 1785 with the creation of five Commissioners for Auditing the Public Accounts and their office the Board of Audit by 25 Geo. III c.52 (*1785 Act*). The new Commissioners for Auditing the Public Accounts who were appointed by Letters Patent by the Executive [s.I] took over the duties and powers of the Auditors of the Imprest [s.I] and were placed very firmly under Treasury control [see 25 Geo.III c.52, sections VIII,XI,XIV,XVIII,XIX,XXI and footnote following]. In particular, the Treasury continued to be responsible for executing the Commissioners oath of office [s.IV]⁴⁰, appointing audit staff⁴¹ and for determining all conditions associated with their employment [s.V]. The 1810 Committee criticised the Executive for starving the Board of resources, and thereby

40. Inspectors of Accounts took an oath "not to permit, suffer, or conceal, any fraud whatsoever in any accounts intrusted to your care. In all Accounts ... you shall see that they are carefully and faithfully examined, drawn, and prepared for Auditing; giving therein to no Accountant any allowance but such as shall be duly and regularly vouched and allowable according to the custom, method, and rules of the Exchequer" [Office for Auditing the Public Accounts, 1786].

41. The first Board of Audit appointed on 5 July 1785 consisted of, in addition to the Commissioners, two Inspectors General on 500L p.a. and 16 clerks earning between 80L and 300L p.a.. By September of 1785 an extra seven junior clerks, a solicitor, an office keeper and two messengers had been appointed. The office was further expanded in 1787 and remained at a total complement of 43 until into the 19th century [*Establishment Rolls*, Board of Audit 1785-1799, National Audit Office].

severely limiting its effectiveness, noting that from its very first day the Board was behind in its work as a consequence of inadequate staffing levels [Fifth report, p.387]. The Treasury could determine not only the structure and organisation of the Board but it also could allocate audit work and allot staff between the Board's separate divisions.

Much to the disappointment of the members of the 1810 Committee on Public Expenditure, the *1785 Act* marked "in the strongest manner the intention of the legislature that ... (the Board) should be strictly subject to the controls of the Treasury" [Fifth report, p.388]. In practice, the 1810 Committee found that this meant that

the decision of the Auditors is in no instance final; but the Lords of the Treasury exercise complete authority with regard to all the articles of an Account ... (The) special jurisdiction of the Treasury is constantly and habitually necessary to the final settlement and passing of the greater part of the Public Accounts which are examined by the Commissioners of Audit [Fifth report, p.398].

Parliament was not mentioned in the *1785 Act*: the Commissioners were to audit on behalf of the Treasury and it was to the Treasury that they were compelled to send their reports [s.XIV].

Parliament had not yet awoken to the importance of an independent state audit function but instead was still content to leave audit in the hands of the Executive. Neither had Parliament recognised that audit did not examine the *actual expenditure* by the departments. Rather, it was an audit of the *imprests* made from the Exchequer to the departments [25 Geo.III. c.52, section XVII]. Parliament had no information as to whether these imprests were fully expended nor whether they had been used for the purposes approved by Parliament. All that Parliament knew from the audit reports was that issues from the Exchequer to the departments had not exceeded the total amounts authorised by Parliament.

Of particular concern to the 1810 Committee was the inaction of the Treasury in responding to the recommendations of the Board of Audit as contained in the Board's

reports [Fifth report,p.388]. Even more disturbing to the Committee was that, because the Board's reports were for the Treasury, Parliament had no knowledge of the Board's recommendations, its findings or of Treasury reactions. The Treasury held the power of life and death over the work of the Board and was the gatekeeper for information to Parliament. Nothing, therefore, had been changed by the *1785 Act* in the nature of the main state auditor's independence; if anything it had deteriorated. Yet this was entirely consistent with the *1785 Act* which set out to create a mechanism which would check on the accuracy of accounts and the authority for expenditure as opposed to establishing an independent audit [s.I,IX,XVIII].

When Lord Henry Petty in 1806 moved for reform of state audit it had become increasingly obvious to an apprehensive Parliament that the additional burdens created by the recent conflicts in Europe had shown the existing audit arrangements under 25 Geo.III. c.52 insufficient to keep the audit of accounts up-to-date [HC debates, 23 June 1806; Memorandum by Sir William Anderson in Parker 1907, Vol.I, p.167]. This was despite the addition in the previous year of another board of Commissioners to the Board of Audit, composed of three Commissioners with the same powers as those previously installed and their Treasury appointed staff [45 Geo.III. c.91, s.III, IV, V]. At the direction of the Treasury, this auxiliary Board was to assist the existing Commissioners with the audit of 'extraordinary accounts' which had fallen into arrears [s.I]. So serious had the difficulties of the Board of Audit become by 1805 that the Committee on Public Monies in 1857 reminded Parliament that "it is difficult to realise, even in imagination the extent of abuse which was then stated to exist" [Appendix 3, p.590]. The 1810 Committee was left in no doubt that the accounts had fallen so seriously into arrears because the Board of Audit was "entirely destitute" of the necessary authority to force departments to produce accounts [Fifth report, p.394]. In an oblique, yet clear, criticism of the oppressive role of the Treasury in state audit, the Board suggested that the accounts would not have fallen into arrears or the existing deficiencies of audit allowed to continue if the Board had been allowed direct access to

Parliament (instead of always requiring the permission of the Treasury) to address Parliament [p.394].

Petty's audit legislation in 1806 [46 Geo.III. c.141 (*1806 Act*)] further increased the establishment of auditors by separating the two Comptrollers of Army Accounts from the Commissioners for Auditing the Public Accounts and adding another four Commissioners to the Board of Audit to give a total of ten⁴². At the same time, Treasury leverage in audit was again strengthened. The *1806 Act* licensed the Treasury to subdivide the Commissioners into as many sub boards it saw fit and to allocate the Board's staff and its work between the sub boards [s.V]. Lord Petty had argued during debate over the *1806 Act* that

it would be expedient to leave the power with treasury to alter it as they should see occasion, because the treasury would have the best opportunity of observing how the different boards wrought, and what might be the most effectual mode of carrying speedily forward the great work which must be managed in some manner or other. Whatever the errors therefore might occur, the treasury would be enabled to rectify them and to make up in some measure for any defects which might escape the notice of parliament in passing the bill [HC debates, 23 June 1806, col.292].⁴³

Irrespective of what must have been obvious and significant Treasury involvement after the *1806 Act* the Board of Audit was still "purported to be an independent authority ... and (it) was supposed to be placed beyond the party and political influences of the day" [Great Britain, 1857, Committee on Public Monies, Appendix 3, p.590]

42. Commissioners were not to be replaced until their number was reduced to five. "His Majesty" i.e. the Executive, was allowed to nominate and appoint the Chairman of the Commissioners and any new Commissioners, provided that at all times a minimum of six was to be maintained [45 Geo.III. c.141, s.VI].

43. Petty did assure the House that his intention was not to augment unnecessarily the powers and 'patronage' of the Treasury and that "if there could be any other mode by which the end proposed could be effectually answered that mode would be gladly adopted". The reality tended to belie his public breast-beating.

Subsequent to the *1806 Act*, the Commissioners for Auditing the Public Accounts were divided into four boards. The General Board⁴⁴ was concerned with general business, correspondence and regulations for all the Boards. The 'First Board' was allotted by the Treasury the ordinary and extraordinary accounts arising from transactions after 1 January 1806. Ordinary accounts⁴⁵ prior to 1 January 1806 i.e. arrears, were the province of the 'Second Board' while the 'Third Board' audited extraordinary accounts from before 1 January 1806. Apart from the General Board, each Board had three Commissioners and a Chairman. These initial arrangements applied only to 23 December 1809 when the First and Second Boards were consolidated by a Treasury Warrant of that date and called First Subdivision Board. At the same time the Third Board was called the Second Subdivision Board.

Any pretence of an efficient or comprehensive audit function that these audit revisions in 1805 and 1806 may have given was exposed by the Committee on Public Expenditure in 1810 which criticised the Commissioners personally for their lack of interest and initiative and the token nature of the work of their Board. According to the 1810 Committee

the present system of Audit may therefore with propriety be declared to have failed, in many respects, answering the purposes contemplated by the legislature ... not withstanding the previous Acts which have since been passed for the more effectual examination of the Public Accounts; most of the original evils are still permitted ... The system itself in all material aspects is precisely the same as it was more than a century ago [Fifth report, pp.389-90].

The 1810 Committee drew attention to the deception which had become the "received opinion" that the audit conducted by the Board of Audit covered all the public accounts when it was only the more junior offices to which the Treasury directed the Board of Audit⁴⁶; all the major departments of state audited their own accounts [Fifth

44. 49 Geo.III. c.95 [1809] stipulated that the General Board should consist of a minimum of five Commissioners.

45. Ordinary accounts were those related to the expenditures from the amounts approved by Parliament in the annual Appropriation Acts.

46. See the 1810 Committee, Fifth report p.390 for a list of these departments.

report, p.382 and p.391]. This limited audit amounted to only a token review of Executive finances.

When the Commissioners had been reduced to five in 1813, the Treasury took the opportunity to reorganise the Board [Treasury Warrant, 25 August 1813]; the First Board was designated the Board of Audit, Somerset Place and the Second Board became the Audit Office, Adelphi until 1822 when it was combined with the Board of Audit at Somerset Place [Treasury Warrant, 19 July 1822, *Summary of Commission of Audit and Exchequer and Audit Department Minutes*, Treasury internal information paper, no date, pp.131-34].

The other specialist audit commissions continued to operate concurrently with the Board of Audit until they were progressively collapsed into the Board of Audit, the last being the Comptrollers of Army Accounts in 1835. Thus, from 1835 the Board of Audit, headed by the Commissioners for Auditing the Public Accounts, was solely responsible for the audit of 'the public accounts'. This process of audit consolidation in the period 1785 to 1835 was opposed by the Treasury, despite strong recommendations to the contrary by the Committee on Public Expenditure in 1810. The Committee saw great merit in a single Board of Audit with responsibility for "the superintendence and control over the whole of the accounts of the receipts and expenditure of the kingdom, in all its various branches" [Fifth report, referred to in *BPP*, 1821, (517) XIV, pp.51-52]. The Treasury objected strongly to this, arguing that to contemplate combining audit into one office "would be a measure of imprudence and rashness". Instead, the only safe course was to "innovate as little as possible, and to retain the existing establishments". Any other course of action was "so replete with difficulties as to be utterly impracticable in its execution ... (and) would be highly ... objectionable in this principle" [Treasury Minute, 1 February 1811 as referred to in 1821, (517) XIV, pp.51-52].

At the root of the Treasury's vehement opposition was the 1810 Committee's recommendation that the status of the Board should be raised and that the discretionary powers of the Board should be widened at the expense of the Treasury. According to the Treasury, not only was the Board "utterly incompetent to exercise" these enhanced powers, it could not do so "with justice to the public ... or to the individual accountant ..." [Treasury Minute, 1 February 1811]. When the impoverished nature of state audit independence was again questioned in 1819, the Treasury still maintained its opposition to giving the Board of Audit more authority. George Harrison, as the Treasury representative before the Select Committee on Finance in 1819, warned that "it would not be advisable at any time, or under any circumstances, to hazard such an experiment". Rather the present system of audit was far more satisfactory than "any *independent* office of audit which human ingenuity could devise" (emphasis added) [Great Britain, 1819, Fifth report, pp.205-209]. He also argued that a larger Board would be more inefficient and require a larger establishment of clerks. Any proposal to strengthen the Board's independence, therefore, was to be discouraged on the grounds of both economy and efficiency. Harrison discouraged any suggestions by the 1819 Committee that the Board of Audit should be represented by a high officer of state who had a seat in Parliament. It was most doubtful, he intoned, that this would be of any advantage because the "dry and irksome details of so uninteresting and so invidious an office" would be insufficient to maintain the interest and enthusiasm of a sitting member [Great Britain, 1819, Fifth report, p.208]. The last thing the Treasury wanted was to have a highly placed competitor for its authority over audit. Harrison's comments are particularly interesting for they betray the Treasury's disparaging regard for the Board of Audit as an insignificant arm of the Treasury.

The authority and status of the Board and its staff greatly concerned both the 1810 Committee and the 1819 Committee. The 1810 Committee noted that the limited powers given to the Commissioners of the Board confined "the exercise of their

discretion in matters of account, within rules *more rigid than in any other great department intrusted with similar duties*" (emphasis added) [Fifth report, p.394]. It was anomalous, considering the tasks set for the Board of Audit, that it should have more restrictions than the departments which it examined. Instead, the departments had far greater powers of self regulation than their inquisitors who were so tied and bound by the decisions of the Treasury that

the power of acting is almost entirely denied to them, they are subject to such a variety of restrictions ... as tends to impede all sufficient progress in the discharge of their functions, and renders them wholly subservient to the Board of the Treasury [Great Britain, 1810, 1810 Committee, Fifth report, p.394].

This served to relegate the Board of Audit to a very inferior status⁴⁷ and meant that it was neither independent nor, in the absence of powers superior to its auditees, influential [Great Britain, 1810, 1810 Committee, Fifth report, p.394]. The 1810 Committee heard from Mr. Praed, a Commissioner for Auditing the Public Accounts, how the subordinate position of the Board when compared to other public departments "frequently impedes our proceedings ... The high situation of some public accountants, and the connexion of others with persons who hold high offices" put the Board at a great disadvantage⁴⁸. When faced with opposition from a privy counsellor or a Minister acting as the public accountant for a department, the opinion of the Board of Audit had little chance of being preferred and thereby denied the auditor's findings and criticisms any real cogency. Apart from administrative impediments, it would have been very difficult to criticise a superior when the social milieu perpetuated the legitimacy of social rankings and the attendant respect which higher levels presumed as their right from the lesser classes. In these circumstances, it is very difficult to deny the habits of a lifetime and to change an entrenched mental state during audit.

47. Although the 1810 Committee was unhappy with the position of the Board it did not put forward any specific proposals to remedy the situation [Fifth report, p.402].

48. A public accountant was the person responsible for presenting the accounts for audit: they were the accountable or accounting officer [Great Britain, 1872, Committee of Public Accounts, Second report, p.50].

Further evidence of the impotence of the Board of Audit during this period and the strength of the Treasury came from the reflections of Edward Romilly⁴⁹ before the Select Committee on Public Monies in 1857. He called upon the Committee to remedy a long known defect of state audit and to recommend a diminution of the influence of the Treasury over his officers, thereby introducing some independence to his office. He contended that the Board would remain at the margins of the constitution while ever the auditors were "subordinate officers of a subordinate department ... (in which) they have to hope for their advancement in life from the chief officers of the Executive than from ... the Commission of Audit" [Appendix II, p.552].

Towards the end of this phase in the evolution of state audit disclosures of illegal and unconstitutional spending by departments compelled Parliament to examine the role of state audit, in particular its relationship to Parliament. This was to lead state audit into its third phase and for the first time present it with the opportunity to become an office with some independence.

3.5 THE THIRD PHASE IN THE EVOLUTION OF STATE AUDIT: STATE AUDIT IN TRANSITION 1832-1866

3.5.1 Audit Reform for the Navy: The 1832 Audit Act

Throughout the period 1832 to 1866 state audit continued to be haphazard in effect, incomplete in coverage and lacking in any substantive independence from the Executive. The gradual emergence of an appropriation audit on behalf of Parliament, and thus the introduction of modern state audit, is the most distinguishing feature of state audit in this period [see Great Britain, 1857, Committee on Public Monies, Q.4459; HC debates, 24 April 1856, col.1454].

The period covered by this third phase was politically unstable as a result of Peel's determination to repeal the corn laws which split the Conservatives for over two

49. Romilly had joined the Audit Office in 1836, becoming its chairman in 1854.

decades [Hogan 1991, p.124]. This condemned the Tories to the Opposition benches for uncharacteristically long periods⁵⁰, to be partners in a succession of minority governments or to govern with a very slim majority between 1846 and 1866. It was a period of ill disciplined parties, the "chronic evil of Executive weakness", with members of the government frequently voting with the opposition [Gladstone to Lord Aberdeen, 13 March 1856, in Matthew 1978, p.112; Lord Salisbury, *Saturday Review*, 2 February 1861]. Shifting allegiances between parties, particularly by the Peelites, provided maximum scope for Parliament to change the Executive⁵¹ [see Palmerston to Gladstone, 16 June 1864, in Guedalla 1928, p.288; Cromwell 1968]. The fragility of successive governments meant that the legislature could make the responsibility of the Executive to the House of Commons a reality. The middle decades of the 19th century, therefore, have been referred to as the 'golden age' of responsible government: an age when the legislature was comparatively more powerful than the Executive. Upon looking back over some of this period, Earl Grey observed with some affection how

for a quarter of a century Parliamentary Government has been established ... with greater purity and efficiency than it ever possessed before ..., (for) during this period innumerable measures of unequalled public importance have been adopted ... [*Edinburgh Review*, Vol.CCXIX, July 1858, p.272].

Doubtful party allegiances provided greater opportunity for reformists to have an impact on government policy. As a consequence, the period 1846-66 was one of great

50. After a long unbroken span of hegemony from the late 18th century to the early 1830's, the Tory Party had come to be seen as the legitimate form of government with the Whigs performing a cosmetic role as the constitutional Opposition.

51. The governments were:

Sir Robert Peel	1841-46 (Tory)
Lord John Russell	1846-52 (Whig)
Earl of Derby	1852 (Tory).
Earl of Aberdeen	1852-1855 (Whig-Peelite)
Lord Palmerston	1855-58 (Whig-Peelite)
Earl of Derby	1858-59 (Tory)
Lord Palmerston	1859-65 (Whig-Peelite)
Lord John Russell	1865-66 (Whig)
Earl of Derby	1866-68 (Tory)
William Gladstone	1868-74 (Liberal)

Of the nine governments formed, eight were brought down by defeats in the Commons; the exception was a result of the death of Palmerston in 1865 [Hawkins 1989, pp.661-2].

social reforms in government, industry and education. It was also during this period when the use of state audit to enhance parliamentary control over the financial affairs of the Executive was advanced.

From 1832 two types of state audit were carried-out, both of which involved the Board of Audit and extensive Treasury influence. Firstly, there was the long standing administrative audit which was

conducted by the officers of the Audit Board under the directions of the Treasury, in order to see whether the money had been expended in accordance with the directions of the Treasury [HC debates, 1 March 1866, Sir S. Northcote, second reading of the *Exchequer and Audit Departments (E&AD) Bill*].

The second form of audit, isolated examples of which exist from the 14th century, was an appropriation audit⁵² which owed a great deal to the efforts of Gladstone's friend Sir James Graham.

In 1831 Sir James Graham, as the new First Lord of the Admiralty, informed Parliament that a considerable amount of spending in the navy had been carried out without either the approval or the knowledge of Parliament [HC debates, 25 March 1831, col.952]. "I have now", wrote Graham to Earl Grey in 1832, "3,000 seamen more than were voted by parliament in the estimates last year" [23 December, in Parker 1907, Vol.I, p.159]. This had been achieved by the Navy Board⁵³ and the Victualling Board using money for purposes which were different to those approved by Parliament⁵⁴. As noted in section 3.3 above, the Commissioners for Auditing the Public

52. Normanton described this as

a legal and an accounting safeguard, a protection against negligent and slovenly administration as well as against actual fraud, ... and above all a major constitutional guarantee essential for a healthy relationship between the administrative and the political power, between executives and lawmakers [1966, p.73].

For examples of early appropriation audits see Bridges 1964, p.19; for a detailed history of early appropriation audits see Great Britain, 1902, National Expenditure Committee, Appendix 7, p.233.

53. The Navy Board was a civilian board of management concerned with overseeing the administration of the civilian departments of the navy.

54. An example given by Graham of a misappropriation of money was the construction of buildings at Cremin in 1826 by the Victualling Board. Parliament had only approved 4,000L. to be spent on this work yet the Board had managed to spend 229,441L. by transferring to Cremin surpluses from other

Accounts audited only the money *issued* on imprests from the Exchequer and not the actual *expenditure* of the money by the departments [Great Britain, 1902, Minutes of Evidence of Lord Welby⁵⁵, Select Committee on National Expenditure (1902 Committee), Q.2508, also Appendix 13, p.229]. Burke's Economical Reform Movement in the late 18th century had created an awareness of the need for closer checks on the expenditure of Exchequer imprests but did not produce any corresponding reforms. Sir Henry Parnell was a persistent critic of public accounts, arguing for simple and uniform accounting systems throughout all departments, "proper" audits and for annual reporting to Parliament [HC debates, 17 February 1831, col.625].

For Graham⁵⁶, a staunch advocate of economy in public spending and a persistent critic of the paucity of financial information provided to Parliament, the situation was intolerable and it could no longer be permitted to continue in his department [HC debates:30 April 1830, cols.305,508-9; 14 February 1832, col.359]. He was therefore instrumental in passing, as part of pent-up reforms of the new Whig government, the *1832 Audit Act*⁵⁷. At the time, and later, the reforms embodied in Graham's *1832 Audit*

amounts voted by Parliament [HC debates, 25 March 1831, col.950]. Numerous other examples of expenditures at Deptford and Chatham were also cited [col.954].

55. Welby, who entered the Treasury in 1856, was Head of the Finance Division of the Treasury from 1871 to 1885 and Permanent Secretary to the Treasury between 1885 and 1894 [Great Britain, 1902, Minutes of Evidence, National Expenditure Committee, Q.2505-07]. His extensive experience in government finance meant he was highly regarded and a favourite expert witness before commissions and committees of enquiry towards the end of the 19th century.

56. Graham (1792-1861), First Lord of the Admiralty 1831-4 and 1852-5, Secretary of State for Home Affairs 1841-6. Graham was, for some time, a close friend and confidant of William Gladstone [see Gladstone's correspondence in Matthew 1978]. Graham was respected as a master of financial detail and therefore a valued member of House committees [*Dictionary of Biography*, p.331]. Unlike that other 19th century master of finance, Gladstone, Graham was widely disliked and mistrusted [see Greville to Queen Victoria, January 1849, in Ward 1967, p.238; Stuart 1954, p.54; Melville to Fox Maule, 30 January 1840 in Donajrodzki 1977, p.103-4]. Greville had experienced at first hand Graham's "vanity and self-sufficiency" when Graham was appointed to the Admiralty in 1831 over the head of Greville [Ward 1967, p.97; see also Erickson on Graham's ruthlessness, 1952, p.292]. His time at the Home Office was regarded as a failure, unlike his time at the Admiralty where he was held in high esteem: "The energy with which Sir James Graham has proceeded to new-model the Department ... will leave ... little to desire in that branch of the public service [*The Black Book of the Aristocracy*, quoted in Parker 1907, Vol.I, p.147; see Duke of Bedford to Lord John Russell in Donajrodzki 1977, p.105].

57. 2 Will.IV. c.40

Act were seen as a watershed in state audit because they introduced formalised appropriation audits on behalf of Parliament. So closely was Graham identified with the *1832 Audit Act* that it was usually referred to as the Graham Act⁵⁸. Lord Welby recognised Graham as the "first statesman who grasped that ... the only real check of expenditure is to be found in a Report to the House of Commons on that expenditure, when it had taken place, by an independent auditor" [Welby to the Graham family, 27 September 1905, in Parker 1907, Vol.I, p.165].

The extravagant praise which followed Graham's *1832 Audit Act* emphasised only its contribution to improving accountability to Parliament when he was as much concerned about the use of audit and improved accounts to enhance economy in public spending. Introduction of audit reforms by Graham cannot be understood in isolation from Graham's impassioned personal philosophy of stringent economy. It would have been completely out of character for Graham not to place the pursuit of economy at the top of his list of priorities for his work in the navy. It is unlikely that he could leave behind deeply ingrained habits and direct his energies elsewhere. It was the flagrant and widespread waste which Graham found in the navy which offended him far more than any deceptions which the misappropriation of funds created for Parliament. By providing opportunities for the expenditure of money to escape close supervision, misappropriation led to prodigality which then rebounded on the public purse and taxation levels. With more information on Executive spending Parliament would be more able to harry wasteful and spendthrift departments.

58. While the intent of the *1832 Audit Act* was the work of Graham, details of the new auditing and accounting system for the navy were developed by William Anderson. Later Anderson was to be at the centre of the accounting and audit reforms which were to sweep through other departments. He was brought to the Treasury from his post as Assistant Paymaster (appointed in 1836) by Gladstone in December 1852 as the Principal Clerk of the Treasury to head its Finance Department. In 1867 he was promoted to the position of Assistant Comptroller General in the newly formed Exchequer and Audit Department [Welby to Graham family, 27 October 1905, in Parker 1907, Vol.I, p.166; for additional biographical material on Anderson see Minutes of Evidence of the Committee on Public Monies, 1857, Qs.931-935].

Graham was in his element at the Admiralty. It was well known that the navy was full of sinecures, useless duplication of offices and centuries of clogging, accumulated privileges. The navy, which was notorious for its extravagance and its invulnerability to financial control, was headed by a very powerful and influential Secretary of State who had ready access to all the important members of the Government, which seemed to make the navy untouchable. To attack the navy's spending was seen as attacking the well being of the Nation itself and intruding in a perilous fashion in the Executive's affairs. The navy was the nation's security against the envious plottings of England's often hostile neighbours. When barbs of financial criticism were directed towards naval spending the navy would counter with predictions of national vulnerability and defeat. This was usually enough to blunt criticism and perpetuate the affection with which the Nation regarded its navy.

So sure of their position were supporters of the navy that when it was suggested by Landsdowne that Graham be given the Admiralty they felt reassured that in the navy "his dangerous inclinations to economy would not have too abundant scope" [Butler quoted in Erickson 1952, p.80]. It was to be the very opposite, for Graham was determined to clean-up the navy. Graham gave fair warning in his introduction of the new Audit Act in 1832 that he had set-out to achieve economy, efficiency, accountability for the use of public money and an end to political appointments⁵⁹ [HC debates, 14 February 1832, p.129]. By the time Graham left the Admiralty in 1835 he had managed to reduce naval spending from 5,045,827L. in 1832 to 4,803,647L. in 1833, 4,716,894L. in 1834 and 4,658,000L. in 1835 [Ward 1967, p.128]. This, praised *The Black Book of the Aristocracy*, set a "splendid example to the heads of Departments" [in Parker 1907, Vol.I, p.147]. *The Morning Chronicle* and the *Morning Herald* commended Graham for exposing the Admiralty's "system of deception and mystification" [26 February 1831].

59. Graham's interest in economy in the navy had begun to emerge very early in his crusades for frugality in government spending. In March 1830 he drew considerable attention to himself when he sought the abolition of the Treasurer of the Navy as a sinecure [HC debates, 14 March].

Economy was a life obsession with Graham; it informed both his private and public life. This was not only his personal predisposition but it also reflected a strongly held opinion throughout the influential community that Executive intervention and therefore spending should be minimised. When making his will in 1823 Graham was to indicate his life's rubric by directing that his trustees should deal with his estate with "strict economy", although he did not "wish to enforce a niggardly system ... I wish only to urge abstinence from all fruitless and unnecessary expense" [Parker 1907, Vol.I, p.67]. As early as 1825 James Butler had remarked upon Graham's passion for economy and the popularity which this had created for him, both within and outside the House of Commons [see Erickson 1952, pp.65,66; for examples of calls for economy see HC debates: 12 February 1830; 5 April 1830, col.1271; 14 May 1830, cols.519, 731; 7 June 1830, cols.279-280; 25 February 1831, cols.953-54]. Towards the end of his parliamentary career Graham reminded Roebuck that "for two or three years before the formation of Lord Grey's Government ... (particularly in 1830) I had taken a line which was considered radical on questions relating to public expenditure ... Reform and Retrenchment were the watchwords which led me to power" [Letter 4 January 1851, in Parker 1907, Vol.I, pp.117-8; for example see HC debates, 14 May 1830]. Lord John Russell's refusal to pledge that his government would implement a policy of stiff retrenchment was sufficient grounds for Graham to refuse the Admiralty in January 1849 [Ward 1967, p.238].

The *1832 Audit Act* required the Admiralty to provide Parliament with an annual set of audited accounts which compared "the Expenditure under the several Heads of Naval Service, as expressed in the Appropriation Act or Acts for that year" [s.XXX] and thereby met Graham's criticism in 1831 that "it was due to the Commons of England to let them know the exact appropriation of the money they had voted" [HC debates, 25 March, col.219]. The new Act "would afford a means of ascertaining that a scrupulous adherence was observed of the appropriation made by parliament" [HC debates, 14

February 1832, col.360]. The Admiralty's report in the form of a 'balance sheet' would also show

what had been expended beyond the Estimates under each head. The auditors should also state any discoveries of improprieties they might have made ... [Sir James Graham, HC debates 14 February 1832, col.360].

Through the efforts of what the Treasury later referred to as "an independent authority" [Great Britain, 1902, Lord Welby, Select Committee on National Expenditure, Appendix 13, p.229], ie. the Board of Audit, for the first time Parliament was now in a position to see on a regular basis that all payments had been properly authorised, that expenditure had been made for the purposes approved by Parliament and to "convert what (had been) a nominal responsibility in the officer who brought forward the Estimates into a real responsibility" [Great Britain, 1857, Committee on Public Monies, Minutes of Evidence, Q.2641; quote is Sir James Graham, HC debates, 14 February 1832, col.360; see also Welby to the Graham family in Parker 1907, Vol.I, p.167]. It was not the role of the auditors to question the wisdom of the expenditure [Great Britain, 1857, Committee on Public Monies, Minutes of evidence, Q.4459]. The Board of Audit was limited by section XXX of the Act to seeing that "the directions of parliament were obeyed ..., and whether the vote has been exceeded ..." [Great Britain, 1860, Committee on Miscellaneous Expenditure, Minutes of evidence, Q.520].

Graham's scheme to enhance state audit on behalf of Parliament was not warmly received by everyone. His legislation was criticised as being an unnecessary complication to an otherwise straightforward system. It was also condemned as being 'impracticable' [Sir George Clerk, Treasurer to the Navy prior to Graham taking office, HC debates, 25 February 1832, col.958]. Sir George Cockburn argued that the new Bill would not be any better at improving the supervision of public expenditure in the navy and would be unable to "secure the public service against mismanagement, or the public money against waste". Instead, the "cure would be worse than the disease" [HC debates, 6 April 1832, col.731]. Understandably the navy was opposed to any demands

for increased accountability to Parliament. Prior to 1832 the navy had complete control over its accounting arrangements. From 1796 all accounting was coordinated by the Navy Board's Committee of Accounts with day to day responsibility for the navy's accounts in the hands of the Treasurer of the Navy. All navy accounts were audited by the Comptroller of the Navy. In 1832 all accounting for the Navy Office was consolidated under the Accountant General of the Admiralty. Thus, until Graham's reforms the Board of Audit had no part to play in the navy's accounts.

3.5.2 Extension of Appropriation Audits: The 1846 Audit Act and the 1851 Audit Act

Eventually the appropriation audit which was formalised in the navy was extended to the army and ordnance departments in 1846 [9&10 Vict. c.92 (*1846 Audit Act*)] and to the Departments of Woods, Forests and Public Works in 1851 [14&15 Vict. c.42 (*1851 Audit Act*)]. Inclusion of the army within the umbrella of appropriation audits was the culmination of several years of accounting improvements, under Trevelyan's direction at the Treasury, prompted by Graham's Act in 1832 [Trevelyan to Gladstone, 8 February 1854, A/M 44,333]. Extension of appropriation audits was a major step-up in giving the Treasury some of the authority it had been lacking over the largest departments of state. For the first part of the 19th century the Treasury had little influence over the War Office and the Admiralty because of their very powerful Secretaries of State.

The *1846 Audit Act* limited the Commissioners for Auditing the Public Accounts to examining accounts of 'Receipt and Expenditure' received from the naval and military departments which must show all *expenditure* "classed under the several Heads of Service as expressed in the Appropriation Act or Acts for the Year" [s.II]. In a similar manner the Commissioners of Woods, Forests, and Land Revenues were to report to the Commissioners for Auditing the Public Accounts who were in a position to verify that all expenditures had been made as approved by Parliament [s.XXXVII]. The

Commissioners for Auditing the Public Accounts would then transmit the audited accounts to the Treasury which was charged with laying the accounts before Parliament [*1846 Audit Act*, s.II, *1851 Audit Act*, s.XXXIX]. Thus, by the time the Committee on Public Monies met in 1856 the Board of Audit carried out an appropriation audit in the Executive's largest departments. This, however, was the full extent of the external audit of these departments. None of the 'great departments' had their accounts audited in detail by the Board⁶⁰; this was still the closely guarded responsibility of the departments⁶¹. The Board of Audit's appropriation audit relied upon the completed accounts provided by the departments; the Board would not enquire behind these accounts once assured as to their veracity by the departments' accountants⁶² [Great Britain, 1860, Select Committee on Miscellaneous Expenditure, Minutes of Evidence, Qs.504,508,510]. The Board of Audit had no authority over these departmental officers who, not infrequently, could be hostile to the views and inquiries of the Board of Audit⁶³. The Board was in no doubt that this arrangement was perpetuated by Treasury regulations to

serve the purposes of the Department itself. It ... (was) an administrative precaution adopted in order to enable the Department to keep a proper control over its own expenditure [Minute from the Board of Audit to the Treasury, 30 July 1861, A.O. 27.17].

While the introduction of appropriation audits certainly provided more financial information to Parliament on a formal, regular basis it did not provide Parliament with

60. The *1851 Audit Act*, for example, made it clear that nothing contained in the Act "shall be construed to supersede or in any Manner affect the detailed Examination and Audit of the Accounts of the Commissioners of Woods, Forests, and Land Revenues" as provided for in 7&8 Vict. c.89.

61. See George Harrison's (a Treasury official) arguments in favour of audits by departments [Great Britain, 1819, Appendix to the Fifth report of the Select Committee on Finance, pp.205-9].

62. Sir Henry Parnell had been outspoken in his earlier criticism of self audit by departments. "It was inconceivable", he argued, that departments during their audits

will never object to items of expenditure, however extravagant, which they themselves have authorised ... This absence of responsibility is highly objectionable [Great Britain, 1857, Committee on Public Monies, Appendix 3, p.589, "Report on Army Accounts", 22 August 1840].

63. Resistance stiffened even further after the introduction of the *1866 Audit Act* [see Macaulay 1867, p.7].

information on all aspects of government. Each extension of appropriation audit was made department by department. There was, as yet, no general provision that all government departments would be audited in this manner⁶⁴. It was given entirely to the Treasury to decide which accountants were to submit accounts to the Board for audit and which accountants would be exempt. The Treasury could also change its mind at any time and withdraw accounts from audit without any explanation to the Board [Great Britain, 1857, Committee on Public Monies, Minutes of Evidence, Appendix 25]⁶⁵. According to Romilly,

the circumstances which may induce the Treasury to decide in favour of sending some accounts to the Audit Office and of withholding others are of a kind that can only be known to the officers of the Treasury ... I am really unable to state what the circumstances are which induce the Treasury to send some accounts to us and withhold others. It rests with the Treasury; they have absolute discretion in the matter [Great Britain, 1860, Committee on Miscellaneous Expenditure, Minutes of Evidence, referred to by Lord Montagu, HC debates, 11 March 1863, col.1323].

Apart from the limited nature of audit in the defence departments throughout this period, at the time the Committee on Public Monies met there was only a partial and inconsistent coverage by the Board of Audit of the civil service accounts for the purposes of an administrative audit. For the members of the Select Committee on Miscellaneous Expenditure in 1860 this came as a startling revelation for, as their questioning indicates, they had believed that all the public accounts passed through the Board of Audit [Minutes of Evidence, Qs.565,566,597]. No revenue departments, including the Customs Office, were required to undergo any check apart from ensuring that vouchers shown to the Board of Audit equalled the charge appearing in the accounts [Minutes of Evidence, PAC, First Report 1861, Qs.66-73]. Even then the auditors were told to rely upon the accountants as to the correctness of the vouchers. The Department of Public Works was subject to both a detailed administrative audit

64. The Treasury had been considering a consolidating act for some time [Trevelyan to Gladstone, 8 February 1854, A/M 44,333].

65. The Transfer of the audit of Commissariat accounts from the Board of Audit to the War Office in 1856 in particular caused considerable consternation within Parliament [HC debates, 24 April 1856].

and an appropriation audit whereas the Treasury escaped audit completely. Indeed, apart from the army and navy, no departments headed by a Secretary of State had their accounts audited by the Board of Audit [Great Britain, 1857, Committee on Public Monies, Proceedings, p.508]. This was a reflection of the weakness of the Board in controlling its work under the authority of an increasingly powerful Treasury, its inferior standing relative to most departments and the soporific effect discussions of audit had on members of Parliament despite anguished cries from within their midst [HC debates, 24 April 1856, cols. 1453-4].

The *Audit Acts* of 1832, 1846 and 1851 brought no improvement in the independence or standing of the Board of Audit. On the contrary, it appeared to Romilly that the 1846 Act invested the Treasury

with far greater power over the examination of the accounts of the Admiralty and the War Office than would appear to have been contemplated when 2 Will. IV, c.40, was passed regulating Admiralty accounts [Great Britain, 1857, Committee on Public Monies, Appendix II, p.551]

The *1846 Audit Act* was a major step forward in Treasury control for it gave the Treasury some of the authority it had been lacking over the largest departments of state. A Treasury Minute of the 13 January 1846 made it clear to all concerned that the appropriation audit of army accounts under the new *1846 Audit Act* would be "conducted ... by the Commissioners of Audit under the superintendence of the Treasury" [Great Britain, 1857, Committee on Public Monies, Appendix II, p.550]. This meant that in practice the Board of Audit was "little more than the right hand of the Treasury for conducting a certain service" [Great Britain, 1860, Committee on Miscellaneous Expenditure, quoted in HC debates, 11 March 1862, col.1323].

Control of the recruitment, qualifications and dismissal of Board of Audit staff made Treasury control particularly potent, ensuring that the work of the Board could be heavily circumscribed. The Treasury was shown to be characteristically unsympathetic

to requests from the Board of Audit for extra staff as the extent of the Board's duties expanded into appropriation audits⁶⁶ and indifferent to the wishes of the Board's staff. The Treasury's appointment of Edward Hoffray from outside the Board to the highly sought after position of Inspector of Naval and Military Accounts in 1853 was one case in particular which stirred the resentments and 'jealousies' of the Board's staff [Trevelyan to Gladstone, 21 February 1854, A/M 44,333].

The *1846 Audit Act* compelled the Board of Audit to transmit all audited accounts to the Treasury for final approval [s.II]. In the case of any disallowances by the Board of Audit or refusal to pass the accounts, the Treasury could send the accounts back to the departments for any corrections it thought necessary. The accounts would then be audited again and resubmitted to the Treasury [s.II]. Whenever any differences in opinion arose between a department and the Board of Audit it was given to the 'Commissioners of Her Majesty's Treasury' to override the Board of Audit and to "determine in what Manner the Item or Items objected to shall be presented to parliament" [s.V]. Treasury authority for a transaction was all that an accountant needed to pass the auditor, irrespective of any of the auditor's misgivings about a transaction [Great Britain, 1857, Committee on Public Monies, Minutes of Evidence, Q.4255]. There was no appeal outside the Treasury; the Commissioners for Auditing the Public Accounts were unable to point out to Parliament any irregularities or abuses in the public accounts or to report on suggestions for reform [Great Britain, 1857, Committee on Public Monies, Report, p.836]. In effect, these provisions and clause VI⁶⁷ of the Act made the Treasury the ultimate auditor, thereby reducing the Board of Audit, complained Lord Montagu, to

merely a delusion and a sham. ... The Board was laughed to scorn by the Government ... The House of Commons and the people of England

66. Only one Board of Audit examiner was allotted by the Treasury to each department to carry out the appropriation audits which were required by the *1846 Audit Act*. As a consequence, observed the Committee on Public Monies in 1857, it was not possible "for the Audit Office to have done more than continue the system in force" [Appendix II, p.550].

67. This referred to notification by the Board of Audit to the Treasury of any excess expenditure.

are deceived ... (The) powers of the Board under 9&10 Vict. c.92 are greatly weak, they cannot apply to any Secretary of State the power with which Parliament has given them; for the Secretary of State, backed by the whole power of the Treasury, only laughs at them ... (The) Board of Audit is a mere figment of Guy Fawkes [HC debates, 11 March 1862, col.1322] ... If it was intended to leave the Board in its present state, it would be better to get rid of it altogether [col.1332].

It was obvious also to Mr. Augustus Smith that the Board of Audit was deficient in powers in its dealings with the Treasury which had "the real control" [HC debates, 11 March 1862, col.1347]. During the same debate Sir Stafford Northcote⁶⁸ indicated to Parliament that in the present circumstances it was understandable that

the Members of that Board (of Audit) ... were not satisfied with their present position; to put them in direct relations with the House ... (there) were many points connected with the question of audit, on which legislation was required [HC debates, 11 March 1862, col.1355].

The criticisms of Treasury influence by Smith and Montagu, however cogently expressed and passionately felt, were those of a minority in Parliament. The assistance of the Treasury was now regarded by most Members as essential if Parliament was "to exercise a beneficial influence over the money they had to vote" [Wise, HC debates, 2 February 1860, col.447]. Speaking for the government, Peel defended the Treasury and objected to the criticisms of Smith and Montagu and insisted that "the Board of Audit was, in reality, an independent department" [HC debates, 11 March 1862, col.1356]. Befitting a former Chancellor of the Exchequer, Gladstone in his *Memorandum on Finance* in 1856 also advocated strengthening the position of the Treasury by bringing all public accounts under its control [Diary entry, 16 February 1856, in Matthew 1978, p.104]. In this way, he later wrote, he would "complete the construction of a real department of finance" [Diary entry, 20 February 1856, in Matthew 1978, p.107].

68. Northcote (1818-1887): Financial Secretary to the Treasury February to June 1859; President of the Board of Trade 1866-7; Secretary of State for India 1874-80; First Lord of the Treasury 1885-6; Secretary of State for Foreign Affairs 1886-7.

3.5.3 Gladstone's Blueprint for Appropriation Audits

A decade before the *Exchequer and Audit Departments Act of 1866* William Gladstone and Sir James Graham had been convinced of the need to strengthen state audit in the hands of Parliament [Gladstone's Diary entry, 16 February 1856, Matthew 1978, p.104]. This conviction was bolstered by the recommendations of the Select Committee on Public Monies in 1857 which saw great merit in extending Graham's appropriation audit to all state departments [HC debates, 6 August 1859, col.1090]. Throughout the next decade, for much of which Gladstone was the Chancellor of the Exchequer, the foundations of an extended appropriation audit were put in place. At the heart of the audit reforms which Gladstone had envisaged in his *Memorandum on Finance* in 1856⁶⁹ were a common set of accounting procedures for all departments and a parliamentary finance committee which would "assure a more simple and effectual check upon the issue and appropriation of public money"⁷⁰. The latter objective was met with the establishment of a Select Committee of Public Accounts [PAC] on the 9 April 1861 and later its conversion to a Standing Committee of the House on the 31 March 1862⁷¹. This preempted the expansion of appropriation audits to all government departments with the *Exchequer and Audit Departments Act* in 1866⁷², something which the Committee on Public Monies had suggested [Lord Montagu,

69. Sir James Graham praised Gladstone's *Memorandum* but cautioned him that his "large financial scheme" could only take root if there was peace abroad and "moderate" public expenditure at home [Graham to Gladstone, 6 December 1856, A/M. 44,164].

70. Gladstone's proposals for reform came at a time when the financial burden and difficulties experienced during the Crimean War had made even more popular demands for financial restraint in government. Whereas national expenditure in the ten years before the Crimean War had risen only 8.75%, during the period 1853 to 1859, which encompassed the Crimean War, the corresponding figure was 58% [Shannon 1982, p.408]. Between 1847 to 1851 government expenditure was 51,750,000L. rising to 66,700,000 L. between 1852 to 1856 [HC debates, 26 February 1866, col.1102].

71. The Committee was to be nominated by the House of Commons at the start of each session under Standing Order 57. The Chairman was taken from the Opposition [Great Britain, 1902, Committee on National Expenditure, Minutes of evidence, Bowles MP, Q.1017]. Originally the PAC had nine members which was increased to 11 in March 1870, 15 in 1893, dropping to 11 members in 1933 [Great Britain, 1938, *Epitome*, p.7]. The first PAC included Sir Francis Baring, Sir Stafford Northcote, Sir James Graham, Sir Henry Willoughby and Richard Cobden [HC debates, 9 April 1861].

72. Lord Montagu severely criticised the government for limiting the PAC's inquiries to only those accounts which had been audited by the Board of Audit. As the Board only audited that part of the public accounts which the Treasury permitted them to audit, he characterised the PAC as "merely a blind and a delusion" [HC debates, 11 March 1862, col.1358].

HC debates, 4 March 1862; Chancellor of the Exchequer, HC debates, 4 March 1862]. Dissatisfaction within Parliament with the freedom given to the Executive in the Miscellaneous Estimates also served to focus attention on the need for a uniform system of accounts and audit across all government departments to strengthen parliamentary control [HC debates, 2 February 1860, col.447 and 11 March 1862, cols.1306-7]. This led to the establishment of the Committee on Public Monies in 1856 and brought state audit into its fourth phase.

3.6 THE FOURTH PHASE IN THE EVOLUTION OF STATE AUDIT: MODERN STATE AUDIT AND THE 1866 AUDIT ACT

3.6.1 Prelude to Reform: The Committee on Public Monies 1856 and the Consolidation of the Controllship of the Exchequer with the Board of Audit:

The greatest influence on the audit reforms of 1866 was the recommendations of the Committee on Public Monies⁷³ in 1857. Lord Welby described the 1857 Committee as

one of the most remarkable committees both as regards to its constitution and the work it did. The Committee on Public Monies knocked on the head once and for all the idea that an effective control could be exercised by watching the issue of money from the Exchequer and showed that the real control of Parliament must be by ascertaining, through independent officers of its own, how the money had been spent [Great Britain, 1902, National Expenditure Committee, Minutes of Evidence, Q.2508].

Sir Francis Baring had originally proposed a Committee to examine the public accounts in 1854⁷⁴. He was finally successful when in April 1856 he moved for a "Select Committee to inquire into the Receipt, Issue, and Audit of Public Monies in the Exchequer, the Pay Office, and the Audit Department" [HC debates, 24 April, col.1456]. He envisaged that the Committee would be concerned with broader accountability issues, not the details of accounting. Palmerston and his Chancellor of the Exchequer opposed the motion on the grounds that the then present public accounting systems were more than satisfactory, that "there was no ground whatever

73. The Committee was composed of: Sir George Lewis, Sir Francis Baring, the Chancellor of the Exchequer, Sir James Graham, Mr. Wilson, Lord Derby, Sir Henry Willoughby, Mr. Bowyer, Mr. Hankey, Mr. Henley and Mr. Cardwell.

74. Sir Charles Bowyer and Sir Henry Willoughby both claimed the credit for suggesting this form of inquiry [HC debates, 24 April 1856, cols.1462, 1465].

for supposing that our system of public audit was anything but perfectly efficient and accurate" and that which the Committee proposed would therefore be a waste of time [HC debates, 24 April 1856, cols.1461-1466]. There was sufficient dismay at the deficiencies of state audit and disagreement with the Chancellor's assurances, both within the Government and the Opposition, to see Baring's motion carried [Williams, HC debates, 24 April 1856, col.1463 and Ellice, col.1464]. Gladstone appeared to support Baring but suggested that a commission of enquiry and not a committee of the House would be better to deal with such a technical and dry subject as was state audit [HC debates, 24 April 1856, col.1457].

Gladstone saw an inquiry as an opportunity to put into place his far reaching plans for reform, finalised with Trevelyan while Gladstone was at the Exchequer [see Great Britain, 1857, Committee on Public Monies, *Memorandum on Financial Control*, Appendix I, p.528]. He was afraid, however, that if the inquiry was conducted by the House that Lord Monteagle, Comptroller of the Exchequer, would be able to influence the members against Gladstone's scheme, for it appears that Monteagle was well aware of Gladstone's plan to abolish the Comptrollership of the Exchequer⁷⁵[Anderson to Gladstone, 10 June 1857, A/M 44387, f.309]. Gladstone and Trevelyan were apprehensive about their success in gaining parliamentary acceptance for their financial reforms in the face of "a great weight of authority opposed to us and Lord Monteagle is plausible and clever"⁷⁶ [Trevelyan to Gladstone, 21 February 1854, A/M 44333, f.198]. Anderson saw the motion for a committee of enquiry as an attempt by Baring's old friend Monteagle to embarrass the Treasury by exposing misappropriations and financial laxity by the Treasury during the tumult of the Crimean War and which the

75. The Office of the Comptroller of the Exchequer was created in 1834 when the Auditor of the Receipt, Lord Greville, died. This allowed the Lower Exchequer to be reorganised by 4 Will.IV. c.15, *An Act to Regulate the Office of the Receipt of His Majesty's Exchequer at Westminster*, which abolished the office of Auditor of the Receipt and Clerk of the Pells [s.I]. The powers and duties of these two offices were then transferred to the new office of Comptroller General of the Receipt and Issue of the Exchequer (Comptroller General of the Exchequer) whose independence was supposed to be guaranteed by removal of the Comptroller General only by a joint address of both Houses [s.II].

76. The antipathy between Gladstone and Monteagle was well known, particularly from Gladstone's gibes in Parliament. Shannon refers to Monteagle as Gladstone's "old enemy" [1982, p.406].

Treasury had not had sufficient time to correct. If the Treasury could be shown to be less than perfect then, claimed Anderson, it may convince Parliament that Treasury control was not enough and that the Comptrollership of the Exchequer should be retained [Anderson to Gladstone, 10 June 1857, A/M 44387, f.309].

Lord Monteagle's career⁷⁷ was surrounded in controversy almost from the start. As Chancellor of the Exchequer between 1835-9 Lord Monteagle, then Thomas Spring-Rice, was unpopular for his arrogance, self seeking manner and derided for his incompetence which eventually forced him from office [*The Times*, 10 February 1866]. He did not leave, however, without exacting considerable compensation from the government. In return for his removal as a persistent source of embarrassment and danger to the government Spring-Rice was given both his title and the "very agreeable and well paid office" of Comptrollership of the Treasury as a sinecure which he held until shortly before his death [Liddell, HC debates, 27 February 1840, col.701]. Monteagle's move to the "peaceful and calm retreat" of the Comptrollership was bitterly resented within Parliament, especially when it was suspected that the incumbent, Sir John Newport, had been encouraged to surrender his office with the promise of a generous pension⁷⁸ [Liddell, col.679].

Gladstone had favoured for some time the abolition of the office of Comptroller of the Exchequer and a coincident strengthening of audit [Diary entry, 16 February 1856, in Matthew 1978, p.104]. Both Gladstone and Trevelyan, however, had foreseen in 1854 problems with the difficult and widely disliked Lord⁷⁹ when they were initially

77. For more details on his career see Minutes of Evidence, Committee on Public Monies 1856, Q.1-4, 26 May.

78. It had been understood at the time that the position of Comptroller of the Exchequer had been created in 1834 that it would be without pension. Newport would only leave if he was given a pension. Therefore, it was obvious that Newport's resignation was being bought by the Nation for blatant political purposes [see the HC debates, 27 February 1840].

79. Monteagle was supported by Lord Stanley and Lord Alderley in denouncing the amalgamation [Trevelyan to Gladstone, 21 February 1854, A/M 44,333, fol.198].

canvassing ideas for financial reform in the public sector [Trevelyan to Gladstone, 21 February 1854, A/M 44,333, fol.198].

In the event, Monteagle was "less successful than he expected, and the tables are somewhat turned, and he is put upon his defence", much to Anderson's satisfaction who hoped to "succeed in driving a nail into the coffin of that Monster Cheat, the Exchequer" [Anderson to Gladstone, 10 June 1857, A/M 44387, f.309]. The inquiry by the Committee on Public Monies went badly for Monteagle who was forced to defend his office against the Treasury's plan to abolish it with a long document detailing the history and contemporary importance of his office to public finance [Great Britain, 1857, Public Monies, Appendix 3, *Observations of Treasury Memorandum on Financial Control*]. The Committee was not convinced by Monteagle's panegyric and its recommendation that the office of Comptroller of the Exchequer be combined with the Board of Audit was eventually incorporated in the *1866 Audit Act* with the creation of the new position of Comptroller General of the Receipt and Issue of Her Majesty's Exchequer and Auditor General of Public Accounts.

Opponents of the amalgamation of the two offices⁸⁰ saw the work of the two offices as incompatible [Sir George Bowyer, HC debates, 1 March 1866; Lord Belper, Lords debates, 8 June 1866, cols.16-19]. Romilly at the Board of Audit argued that it would lead to the Comptroller General being the auditor of his own accounts and thus destroy any checks on behalf of Parliament which either of the offices could provide [Romilly to Disraeli in a "Memorandum to the Public Accounts Committee Inquiry"⁸¹, *BPP*, 1867, Vol. XXXIX, p.184]. He also suggested that the concentration of power would lead to less independence for audit. To counter objections to the amalgamation, the Chancellor of the Exchequer, who was now within sight of a goal he had set in 1854,

80. Thomas Hankey wanted the Comptrollership of the Exchequer abolished altogether [HC debates, 1 March 1866, Second Reading of the E&AD Bill].

81. Romilly later expressed his regrets to Gladstone that he had been put in a position where he had to disagree publicly with the Treasury and its Chancellor [Correspondence, 11 February 1867, A/M 44,412, fol.56]

rebuffed any suggestions that a conflict of duty would arise and stressed instead what he saw as the several advantages: the status of the head of the Board of Audit would be improved; independence of the Comptrollership function would be enhanced and there would be a salary saving to the state [HC debates, 15 June 1865, col.286]. Joining the two offices would also present very little additional burdens on the time of the chief auditor. Comptrollership functions involving the issue of exchequer bills previously had been greatly simplified and the task of ensuring that issues of money from the Bank of England were under Treasury warrants which did not exceed the total amounts approved by Parliament did not take much time [Gladstone, HC debates, 15 June 1865, col.286]. Advocates of the union argued that not only did a separate Comptroller of the Exchequer provide no worthwhile check on Executive expenditure but it also weakened the opportunity for better financial control by causing

Parliament and the country to shut their eyes to a danger that was real, and prevented them turning their attention to what was a real security-... an efficient system of audit [Sir Stanford Northcote, HC debates, 1 March 1866, col.659].

Although the value of the Committee on Public Monies' work was accepted on both sides of Parliament no immediate reforms to state audit were forthcoming. While some of its recommendations accorded well with the intentions and allegiances of the major political players its suggestions for audit were far less well received. The Committee urged the Government to remove any impediments to the independence of the Board of Audit. To accomplish this the Committee recommended that the Board be allowed to submit its reports directly to Parliament without having to go under the censorial gaze of the Treasury; that it be given final say in the passing of accounts and that control over staffing be taken from the Treasury and given to the Commissioners at the Board of Audit [Great Britain, 1857, Proceedings of the Committee, p.511].

3.6.2 Delays in Audit Reform

From the early sixties as the patience of many members of Parliament ran out, especially those who had formed the Committee on Public Monies, the government was repeatedly berated in and out of Parliament for its inactivity. It was accused of cynically obstructing reform which would introduce "a system and an examination which would give the House a clear account of the way in which public money was expended" [Quote is Sir Henry Willoughby, HC debates, 20 February 1865; see also Great Britain, 1860, Select committee on Miscellaneous Expenditure, Minutes of evidence of Austin, Secretary to the Office of Works, Q.1195; Sir Francis Baring, HC debates, 21 February 1861; Lord Montagu, HC debates, 11 March 1862⁸²]. Many in the House were not convinced of the need for reform while others, like Peel, acted as champions of the Treasury's virtue by disputing criticisms of the Board of Audit's independence. Peel informed the House that

the Audit Board was, in reality, an independent department. The Commissioners held their office on a judicial tenure, their salaries were paid out of the Consolidated Fund, they were responsible to Parliament alone, and Parliament alone could remove them. With respect to the performance of their duties, they were altogether independent [HC debates, 11 March 1862].

The most important audit recommendation of the Committee on Public Monies, which was later echoed in the first report of the PAC, stressed that appropriation audit should be extended to the income and expenditure accounts kept by the Treasury, the revenue departments and the civil service departments⁸³ [Great Britain, 1860, Select Committee on Miscellaneous Expenditure, Minutes of Evidence, Q.692,693; Proceedings of Committee on Public Monies 1857, pp.500,511; PAC, First Report 1861, part iii]. Extension of audit from a straightforward check on bookkeeping and the proper approval of expenditure would not be without its problems warned Romilly.

82. There was a major debate in the Commons on the 11 March 1862 on the need to have a committee to review the estimates and to reform financial control but especially reform of the Board of Audit.

83. Macaulay was to claim credit as the author of the principles of appropriation audit as embodied in the *1866 Audit Act* [Macaulay 1867, pp.6,7].

Appropriation audits would require the state auditors to make judgements on the legality of transactions which would require them to suggest to the Treasury that a particular item should or should not be allowed. This would bring the auditors into direct confrontation with departments [Great Britain, 1857, Committee on Public Monies, Report, Appendix II, Letter from E. Romilly, p.552]. Hoffray reinforced Romilly's concerns arguing that the consequences of further checks on the accounts of departments of state were so profound that they would require a "total change in our system of accountability and our existing institutions" [Great Britain, 1857, Committee on Public Monies, Minutes of evidence, Q.2636].

Treasury witnesses before the special PAC inquiry into the E&AD Bill in 1865 confirmed that audit should be on behalf of Parliament [W. Anderson, Special Report of the PAC, 1866, Qs.227,228]. The Treasury when confronted with this recommendation pleaded that they had been working on a Bill for audit reform for some time which provided for direct access for the auditor to Parliament [Treasury Minute, 23 November 1858, in Great Britain, 1860, Select Committee on Miscellaneous Expenditure, p.175]. The Audit Bill referred to by the Treasury was more a means of consolidating existing audit legislation than an attempt to introduce far reaching reform. Certainly the still-born Bill of the Treasury in 1855 did not contemplate any reduction of Treasury influence over the activities of the Board of Audit [see for example s.X, XII, XXI, XXXIII, XLI]. Section LXVI which allowed the Treasury to withdraw or exclude an account from audit by the Board of Audit confirmed the stranglehold which the Executive had and intended to retain over state audit.

Much of the impetus for financial and audit reform was drained by the change of government which had occurred soon after the Committee reported [Great Britain, 1860, Select Committee on Miscellaneous Expenditure, Minutes of evidence, p.173]. Even with a further change of government in 1859 the Committee's findings, apart

from some piecemeal changes to audit, remained dormant [Gladstone, HC debates, 15 June 1865, col.284]. It was primarily due to Monteagle's opposition that Gladstone delayed the consideration of a "general re-construction ... of (audit) upon the broad principles which the Committee ... contemplated" until the imminent retirement of the chairman of the Board of Audit, Edward Romilly⁸⁴ [Gladstone, HC debates, 15 June 1865, col.284]. It was not until Monteagle's death in early 1866⁸⁵ that Gladstone could finally go ahead with his reforms of state audit. Monteagle had been appointed "during good behaviour" i.e. for life, as a means to promote the independence of his office and could only be removed by an address from both Houses, a most unlikely event given the constitutional implications of this course of action [4 Will.IV. c.15, s.II].

Monteagle knew that while ever he held his office Gladstone's reforms might be held in abeyance. He also realised through correspondence with Gladstone and by the debates in the Commons at the time of the first reading of the E&AD Bill that Gladstone was determined not to be thwarted and to find some way around Monteagle. Sensing that his time may have been limited⁸⁶ Monteagle, ever the opportunist and finding himself in the same position as his predecessor without a pension, sought to strike a bargain which would provide him with a pension. He therefore, on at least two occasions, communicated his willingness to Gladstone to relinquish his office, for the right terms [Monteagle to Gladstone, 8 June and 28 June 1865, A/M 44,406]. Gladstone seized the opportunity to close the way back for Monteagle and on the 15th June informed Parliament of Monteagle's offer to retire and at the same time proposed a pension of 500L. p.a. [HC debates, 15 June 1865, col.286].

84. Parliament had been informed of the retirement of Romilly in January 1865.

85. 9 February 1866 [see the very unflattering Obituary in the *Times*, 10 February 1866].

86. The First Reading of the E&AD Bill was on the 13 June 1865 and the Second Reading two days later on the 15 June. The Bill was finally passed on 5 July 1865.

3.6.3 Audit Provisions of the 1866 Audit Act

During the First Reading of the E&AD Bill in 1866 Gladstone alluded to the intention of the Bill to eliminate the inconsistencies of audit, especially that

some of the expenditure was audited by the Audit Board, ... some of it by Treasury, which was quite wrong, for the Treasury was a department for controlling, and not auditing, the expenditure; ... and a good deal of it was not audited at all. The Government proposed to substitute for that threefold irregular and anomalous method of proceeding a uniform method by which the whole of the expenditure should be audited by ... the Audit Board [HC debates, 9 February 1866].

By the time it came to consolidate the extension of appropriation audit by the Board of Audit to all departments in 1866 some members of the Commons were concerned that the new Exchequer and Audit Department should be given a much higher standing relative to the Treasury than the superseded Board of Audit⁸⁷. In particular, they thought it necessary that the new department should be the master of the Treasury in all matters connected with audit⁸⁸ [HC debates, 1 March 1866, second reading of the E&AD Bill, Sir George Bowyer]. Lord Belper was suspicious that the concentration of audit in the hands of one person, instead of a board of commissioners as previously, was an attempt to subordinate the auditors even more to the Treasury [Lords debates, 8 June 1866, cols.16-19].

Romilly, now retired from the Board of Audit, also urged those examining the Exchequer and Audit Departments Bill to consider carefully the importance of independence for the new Comptroller and Auditor General [C&AG]. He was also

87. This had been one of the recommendations of the Select Committee on Public Monies in 1857.

88. Extension of appropriation audit to the Treasury particularly worried Romilly who warned Parliament that "to place ... at the Treasury officers of a department subordinate to the Treasury, in order to maintain an efficient parliamentary check over the Treasury, would ... be a delusion" [Great Britain, 1857, Committee on Public Monies, Appendix II, p.552]. Romilly held no illusions about what the Board of Audit could expect when audit was extended to its imperious master the Treasury. So preposterous did the proposition then appear that Romilly doubted whether the Treasury would ever be audited. He saw it as inconsistent to expect the auditors to be given audit authority over the Treasury when "in all other ... (respects) they are bound to be subordinate and obedient" [Great Britain, 1857, Committee on Public Monies, Appendix 3, p.598].

apprehensive that devolution of all audit responsibility, although not authority, onto one person would "be destructive to the independence and usefulness of the department" [Romilly to Disraeli, *BPP*, Vol.XXXIV, 1867, p.183]. A board would be more likely to guarantee the honesty of the auditors than if the House had to rely on the conscience of one man. When confronted by the large departments and powerful Secretaries of State, a board would be more likely to be brave enough to do battle [Romilly to Disraeli, pp.185-186]⁸⁹. Without the means to enhance his personal independence, urged Romilly, it was hard to believe that the C&AG would be immune from pressures exerted by the Executive:

Is it human nature or consistent with political experience that a government should not exert itself to prevent any questionable transaction ... from being submitted to the criticism of the House of Commons? [Correspondence on the Subject of the E&AD Act 1866, HC 97 of 1867, p.26].

Regardless of the warnings of, and protestations against, Treasury influence in audit the Treasury emerged from the *1866 Audit Act* with its position appreciably strengthened and for the first time it had statutory control over all Executive spending. Audit provisions which were related to Schedule B of the Act were particularly significant for Treasury authority. Schedule B contained a list of departments which were exempt from a detailed administrative audit of their affairs. Initially only the army and navy accounts were listed in Schedule B. The Act, however, gave the Treasury the authority to add at any time other departments and thereby regularised a long standing practice of the Treasury granting audit exemptions. Candidates for Schedule B, recommended Treasury witnesses before the PAC, would be those departments with their own accounting sections which would be able to check the vouchers in detail and thereby relieve the auditors of checking "castings and computations" [PAC, 1866, Special Report, Q.280]. William Macaulay strongly objected to this suggestion urging instead that

89. The Board's experience provided overwhelming evidence to the contrary.

the only authority that ought to limit the examination ... is the authority on behalf of which the account is audited. If the Treasury were to exercise that power, then the Appropriation Audit, instead of being a check on the Government on behalf of Parliament will become whatever the Treasury might choose to make it [PAC, 1866, Special Report Q.287].

The *1866 Audit Act* reinforced fiduciary accountability as the critical aspect of parliamentary control of the Executive and that external audit on behalf of Parliament was essential if the Executive was to be held accountable. Gladstone referred to the *1866 Audit Act* as "closing the circle of (financial) control" [Einzig 1959, preface] which encompassed, in sequence: appropriation and authorisation by Parliament; the control of the issue of money out of the Exchequer by the state auditor, who acted also as Comptroller after 1866; audit of the appropriation accounts and finally consideration of the state auditor's report by the PAC⁹⁰.

The audit sanctioned by the *1866 Audit Act* was one exclusively concerned with accounting procedures, regularity, legality and accuracy:

the comptroller and Auditor-General shall call attention to every Case in which it may appear to him that a Grant has been exceeded, or that Money received by a Department ... has not been applied or accounted for according to the Directions of Parliament, or that a Sum Charged against a grant is not supported by Proof of Payment, or that a Payment ... was ... not properly chargeable against the Grant" [s.32].

The *1866 Audit Act* established the framework in which audits "on behalf of both the legislature and the Executive, under detailed direction of the latter", could be extended to all departments [Normanton 1966, p.372]. The Executive and not Parliament was made responsible for securing audit on behalf of Parliament [Candlish, HC debates, 28 June 1869, col.628]. The subordinate position of the auditors did not escape the attention of the PAC inquiry in 1866 which expressed some concern that the Executive

90. A Treasury minute of 20 March 1876 noted that the *1866 Audit Act* ushered in a "revolution in public accounts" [Cited in the Report of the Public Accounts Committee, BPP, 1876, p.140].

through the Treasury should have control over both the form of the accounts and the mode of audit [Special Report, Minutes of Evidence, Qs.292-97].

During the PAC's investigations in 1866⁹¹ Sir William Dunbar and William Macaulay stressed that the state's auditors should be responsible to Parliament, and to Parliament alone, and that no authority should be able to influence Audit when it came to the practices of audit [PAC, 1866, Special Report, Qs.182,183]. Gladstone's strong criticisms of Lord Montagu's suggestion that the Board of Audit should be an office of Parliament and answerable only to Parliament reveals that Gladstone did not envisage a fully independent state auditor. "It can scarcely be seriously intended", he mocked, "that such Executive functions, which can only be exercised by a Department fully cognisant of facts and Official precedents (i.e. the Treasury) should be transferred to a Committee of the House of Commons" [HC debates, 11 March 1862].

Less than a month after the Act came into force a heated dispute arose between the new Comptroller and Auditor General Sir William Dunbar⁹² and his former assistant at the Board of Audit, Charles Macaulay, which forcefully illustrates the emerging dimensions of a discourse of state audit independence. Macaulay roundly disputed the claims of Dunbar and Anderson that the Board of Audit had been involved in all stages of the drafting of the Bill and that they had 'acquiesced' to the final arrangements [Dunbar to the Treasury, 14 December 1866, *BPP*, 1867, Vol.XXXIX, p.169; Anderson, Evidence before Special PAC Inquiry 1866, Q.6, p.523]. Macaulay stressed that any involvement he had with the Treasury in the finalising of the Act had been in a

91. After its first reading, the Audit Bill was referred to the Public Accounts Committee for detailed examination. Gladstone argued that the PAC was the best forum to consider the technical reforms proposed [HC debates, 9 February 1866, col.275].

92. Formerly the head of the Board of Audit after the retirement of Edward Romilly. He was appointed on the 1 May 1865 by Queens Warrant [T.6.25]. Dunbar was a Scottish aristocrat and a Minister in Lord Palmerston's government who had spent from 1859-65 as a Lord of the Treasury [*Standard*, 3 May 1888]. Upon his retirement in May 1888 (he died on the 1 December 1889) the *Standard* described him as "a financial officer who has introduced a real system of audit and check into the ... public service ... such as had never previously existed in this country" [3 May 1888].

private capacity outside of his official association with the Board of Audit. Apart from this involvement

at no time has the Board expressed any opinion on the subject of any provision of the Bill. If by 'acquiescence' is meant that the Board did nothing to oppose or obstruct the Bill, this is true. But the Board have not been in the habit of volunteering opinions on public questions which had not been officially referred to them; and as the provisions of the Bill never were referred to them ... they never expressed any opinion on the subject at all [Confidential letter to the Treasury, 29 April 1867].

Macaulay was furious that both he and the Board of Audit had been, in his view, deceived during the passage of the Audit Bill through Parliament. Originally, he noted, the Government had intended that the Assistant Comptroller and Auditor (AC&A) would have powers co-ordinate with those of the C&AG. In the drafts of the Act seen he believed that each of these officers would have powers which would guarantee their independence and importance, with the C&AG responsible for the 'Executive' functions of the office and his assistant for the associated 'judicial' or reporting functions. Instead, in the final version of the Act the C&AG's assistant was to exercise powers only in the absence of the C&AG and even then he would not be able to sign the audit reports which went to Parliament, a part of the AC&A's previous role [Macaulay 1867]. This denial of an independent authority to report to Parliament for the AC&A exposed him to censoring from the C&AG. Should the AC&A come to conclusions which were different from those of the C&AG the senior officer could silence his subordinate [Macaulay 1867, p.5]. In the circumstances Macaulay could see

the Assistant Auditor had been placed in an entirely false and untenable position; that his dignified titles on one side, and his utter powerlessness on the other, represented a ridiculous contrast and could lead to nothing but irritation and embarrassment [Macaulay 1867, p.7].

Accordingly, he refused to accept the position of the first Assistant Comptroller and Auditor and left the office [Macaulay to the Secretary to the Treasury, 16 June 1866, in *BPP*, 1867 Vol.XXXIX, pp.163-65]. The position was then offered to William Anderson of the Treasury.

When it came time to appoint the first C&AG, the negotiations which surrounded the appointment betrayed the dismissive attitude and low esteem held for state audit by the Executive. Once notified of the expected retirement of Romilly as chairman of the Board of Audit, the government canvassed for a potential replacement, having in mind reform of state audit in the near future. Instead of offering the soon to be vacated post to someone in the Audit Office or even in the Treasury the government hit upon the idea that the position could be used to solve the problem of how to provide Richard Cobden with a pension. Cobden had a long and distinguished record of involvement in social reform and for his brilliance as an orator and jousting in Parliament. Unfortunately, Cobden's outspoken ways had not endeared him to the influential and powerful. As a result Cobden had not been able to secure for himself a position in the Executive which came with a pension⁹³. This created a dilemma for the Executive, for Cobden's standing and contributions to the life of Parliament and the Nation would not allow it to leave him unrewarded. It therefore hit upon the solution that Cobden would be offered the chairmanship of the Board of Audit, later to head the reformed Audit Office, from whence he could retire on the pension which would accompany the position. When Gladstone offered the post to Cobden, who subsequently turned the position down, he did so apologetically, recognising that the position was not "adequate acknowledgment" of his services⁹⁴ [Gladstone to Cobden, 10 February 1865, A/M 44,535, fol.14]. It demonstrated the Executive's contemptuous stance towards the role of state audit and the position of state auditor which belied its more publicised righteous stance on the subject. The Executive also showed that state audit was a legitimate avenue of political patronage and therefore within the influence of the

93. There were no parliamentary pensions at this time.

94. The offer to Cobden indicated that Gladstone was not above using patronage even though it contradicted his and Graham's strongly expressed apparent misgivings about using public offices to settle political debts [see Gladstone in Hughes 1942, p.59; Graham to Gladstone, 4 January 1854, Parker 1907, Vol.2, pp.212-13]. In 1862 Gladstone had resorted to patronage to reward Trevelyan with a position in the civil service upon the latter's return from his term as governor of Madras. Trevelyan had then extended the favour to his son who became his private secretary [Trevelyan to Gladstone, 26 October 1862, A/M 44,334 fol.220]. This apparent duplicity was recognised by Lord Acton in 1860 who, in reference to Gladstone, noted how "his excessive earnestness of conviction is the great secret of the persuasiveness of his eloquence" [Quoted in Shannon 1982, p.411].

Executive. The offer to Cobden, in which both sides of Parliament colluded, reinforced the persistent criticism that patronage as a means of bolstering political support populated the civil service with people whose fitness for the position was not the prime criteria of selection, thereby enfeebling the civil service [HC debates, 24 April 1856, col.1407; see also the Trevelyan-Northcote Report 1854]⁹⁵.

The *1866 Audit Act* provided overt recognition of the need to give the C&AG a standing equal to any senior public servant and the 'apparent' means to achieve independence from the Executive. To accomplish this, the C&AG was to be appointed by the sovereign on the recommendation of the Executive and could be removed only by an address from both Houses of Parliament [s.3]. His salary and that of his assistant was also protected by being specified in the Act [s.4]. Additional protection was provided by paying their salaries direct from the Consolidated Fund⁹⁶ and thereby bypassing the annual appropriation procedure of Parliament. By this method the remuneration of the two top E&AD officers was supposedly taken out of the hands of the Executive and the legislature thus making them, according to Welby, "absolutely independent of the Executive Government"⁹⁷ [Great Britain, 1902, Committee on National Expenditure, Appendix 13, p.230]. Surprisingly, these conditions of appointment which were held-out to be guarantees of independence, differed very little to those which governed the conditions of the Commissioners for Auditing the Public Accounts in 1785 [Great Britain, 1902, Committee on National Expenditure, Submission by Lord Welby, Appendix 13, p.230; 25 Geo. III. c.52, s.IV]. Conditions pertaining to Treasury involvement in state audit were another constant in the 1866 legislation.

95. For many members of Parliament the persistent supplications received from constituents for positions for either themselves or some close relative was a great nuisance which encouraged them to denounce it [See Layard 1855 and Addington the Under-Secretary of State for Foreign Affairs 1854 in Hughes 1942, p.59]. Others resurrected old constitutional suspicions to prophesy dire political consequences which would result if the Royal patronage was threatened [Graham referring to Osborne in Graham to Lord John Russell, 30 July 1858, in Parker 1907, Vol.2, p.355].

96. Established in 1787 by 20 Geo. III. c13.

97. A Treasury Minute of 1879 referred in similar terms to the Auditor General as "a parliamentary officer altogether independent of the Executive Government".

3.6.4 The Treasury and the Independence of the C&AG

The independence which clauses of the *1866 Audit Act* governing the conditions of service of the C&AG purported to bestow on the office of C&AG was much more apparent than real. From the very first, there was a predominance of C&AGs who, as civil servants, had usually spent either much or all of their career in, or associated with, the Treasury⁹⁸. It is also probably exceptional in the public service that all appointments to the top position in the E&AD have been external appointments⁹⁹. Members of the E&AD have had to accept a succession of C&AG's who have had not been career state auditors but who have instead impressed the Treasury sufficiently. Appointment as state auditor in Britain, therefore, owed more to political correctness and Treasury association than to any audit expertise¹⁰⁰. Most frequently it has been claimed in defence of the near monopoly of appointments by the Treasury to the post

98. *Comptrollers and Auditors General*

<i>Name</i>	<i>Period in Office</i>	<i>Period at Treasury</i>
Sir William Dunbar	1867-1888	1859-65
Sir Charles Ryan	1888-1896	1865-1888
Sir Richard Mills	1896-1900	1859-1888

Ryan served as private secretary to Disraeli from 1858-9 and Gladstone from 1859-65. He was appointed as Secretary to the Board of Audit on 6 May 1865, a position which he continued to hold with the creation of the E&AD in 1866 [T.6.25; *The Times*, 22 November 1920, p.7]. The *Star* described Ryan as "a skilled financier, a rigorous worker ... and qualified to the tips of his fingers" [3 May 1888]. Mills entered the civil service in 1851 moving to the Treasury in 1859 where he was the Accountant to the Treasury between 1859 and 1872, then Treasury Officer of Accounts 1872-1888. He was Assistant C&AG from 1888 to 1896 [*The Times*, 11 December 1906, p.11; *Star*, 6 September 1888].

99. The Treasury in particular has been adept at filling top positions in state audit from within its own ranks [Roseveare 1969, p.174]. With the rise of an integrated civil service under Treasury control in the 19th century the Treasury, with access to most of the positions in the civil service, also became a particularly fertile source of political patronage.

100. Discussion of the mechanism of appointment of the C&AG has been shown to be a sensitive issue. Robinson, after noting the strong historical relationship between the C&AG and the Treasury, refused to speculate any further on Treasury involvement in the appointments: "upon that point a permanent civil servant must speak with some reserve" [1924, p.148]. When questioned by the Committee of Public Accounts in 1980 on his appointment as C&AG, Sir Douglas Henley, who had been a member of the Treasury from 1946 to 1976, showed there was still a good deal of reticence to draw attention to the mode of appointment of the C&AG when at first he tried to avoid the issue (Q.458). When the Committee returned to question him again on Treasury involvement in his appointment he became very annoyed and refused to be drawn any further:

Q.486 - (Answer) No, I do not think I wish to expand on it. I really do not think that I should formally express a view

Q.487 - (Chairman) Sir Douglas you disappointed me.

Henley's reaction to these seemingly innocuous questions of the Committee is interesting both for his refusal to provide details and for the vehemence of his annoyance.

of C&AG that it is a detailed knowledge of the workings of Whitehall which is most essential to the highest audit office and not the technicalities of state audit [Great Britain, 1980, PAC, Minutes of evidence, Sir Anthony Rawlinson¹⁰¹, Q.29; also evidence of Sir Douglas Henley Q.472¹⁰²].

The appointment of Sir William Dunbar as the first C&AG illustrates the close association between the state auditor and the Executive after the *1866 Audit Act*. Dunbar, who was appointed from his position as a Lord of the Treasury, maintained a close association with the Liberal Party which he boasted extended over a period of 45 years [Dunbar to Gladstone, 15 June 1886, A/M 44,498, fol.23]. At the time of political crisis for Gladstone in 1885, Dunbar wrote to him assuring him that he could count on "your political friends outside the walls of parliament" [Correspondence, 25 April, A/M 44,490, fol.146]. A study of Gladstone's correspondence reveals that Dunbar wrote frequently on matters which were in the main personal.

Dunbar's appeal for recognition of his work as C&AG underlines the shallowness of the Executive's regard for the office and work of the C&AG. As Dunbar neared his retirement he complained to Gladstone that, with one exception, all Comptrollers of the Exchequer since the Restoration had been rewarded with appointment as a Privy councillor: Dunbar was the exception. Elsewhere

decorations and similar honourable ... distinctions have during the last 20 years been conferred without stint on official men serving in the Public Departments but they have always stopped short of the Head of this Department [Dunbar to Gladstone, 17 July 1884, A/M 44,491, fol.315]

Sensing the insufficiency of an appeal to the value of the work of his Office and his leadership to support his case, Dunbar reminded Gladstone that of 90 peerages granted in the past 30 years only three had been Scottish and referred to his family's distinguished history [15 June 1884, A/M 44,498]. Gladstone replied somewhat

101. Second Permanent Secretary to the Treasury.

102. Comptroller and Auditor General

unenthusiastically that the Government was not at present considering new peerages but when it did Dunbar would be considered [18 August 1884, A/M 44,499, fol.32]. Upon hearing in 1886 that new peerages were to be considered Dunbar again wrote to Gladstone reminding him of his previous correspondence and assurances. He also reiterated the grounds which he considered qualified him for state honours, emphasising his close and 45 year long association with the Liberals¹⁰³ [15 June 1886, A/M 44,498, fol.23].

Lord Welby, who had been Permanent Secretary to the Treasury between 1885-1894 after a long Treasury career, very predictably assured the Committee on National Expenditure in 1902 that however it may appear, there was no question of any threat to the C&AG's independence of Treasury domination of C&AG appointments for "when once ... he is appointed he is so independent that undue weight maybe given to that objection' [Great Britain, 1902, Appendix 13, p.231]¹⁰⁴. Welby undoubtedly felt secure in his assurances given that any evidence of Treasury influence over the person of the C&AG was far more subtle, pervading and certain than explicit Treasury directives. Robert Lowe, Gladstone's Chancellor of the Exchequer in 1873, recognised that the training given in the Treasury was a means of socialisation and culture indoctrination which creates "a sort of freemasonry among men which is not easy to describe, but which everybody feels" [quoted in Roseveare 1969, p.178]. Treasury trained officers were increasingly sent out during the 19th century from the Treasury to colonise departments, including the Board of Audit and the E&AD¹⁰⁵. In the latter part of the 1880's it was particularly well known that

103. Dunbar's persistence was beginning to have its desired effect for Gladstone wrote on the back of Dunbar's 1886 letter that if Dunbar was given a peerage it would mean that Dunbar would have to resign his post as C&AG.

104. Much later Henley echoed Welby's comments for he saw "no reason why his former career in Whitehall ... should prejudice ... independence" [Great Britain, 1980, PAC, Minutes of evidence, p.73].

105. The process had begun in the late 18th century with the appointment of J. Martin-Leake, a Treasury official, to the new Board of Audit in 1785 [Roseveare 1969, p.123].

for years it has been the constant policy of Sir Reginald Welby and the Treasury Ring of permanent officials to use their utmost endeavours to the end that the principal posts in all the Departments in any way affiliated to the Treasury shall be filled by Treasury Clerks or Private Secretaries- the object being that, not matter what Party may happen to be in office, the Ring, working through its various offshoots, may still continue to weald the real power [*Vanity Fair*, 2 June 1888]¹⁰⁶

This created a very powerful network of personal relationships and diffused a reverence for the authority and methods of the Treasury throughout departments.

The legislated guarantees which were thought so necessary for the two top audit posts¹⁰⁷ were not extended by the *1866 Audit Act* to the staff of the Office. Instead Treasury control over staff numbers, appointments, salaries and other conditions of service continued unabated in the 1866 legislation. The C&AG was allowed to promote, suspend or remove members of his office, as long as the procedures had received prior Treasury approval [s.9]. The investigation by the PAC of the E&AD Bill disclosed that it was not convinced that Treasury intervention in staffing matters at the E&AD would be either benign or conducive to allowing the E&AD "sufficient authority and status to enable it to discharge its functions satisfactory and properly" [PAC, 1866, Special Report Q.291]. Again Welby later passed off any worries about threats to auditor independence which may arise from these Treasury controls, for while "theoretically, this objection might have some weight; I do not, however, attach much practical weight to it" [Great Britain, 1902, Committee on National Expenditure, Appendix 13, p.231]. Normanton, to the contrary, has seen Treasury powers over staffing as

no mere formality and have been decisive in restricting the numbers, the qualifications and status of the C&AG auditors. In no other country has the Ministry of Finance retained such power over its appointed critics [Great Britain, 1980, PAC, Appendix XVIII, p.48-49].

106. The *Civil Service Gazette* also complained that the Exchequer and Audit Department "ought to be more important and independent than it is" [6 August 1887].

107. The position of Assistant Comptroller and Auditor General was abolished in the 1921 amendments to the Audit Act [11&12 Geo. V, ch.52, s.8(4)].

Despite Welby's assurances, Treasury control of the C&AG's staff had a debilitating effect, particularly in the minds of the auditors, on the status and authority of the auditors in their daily interactions with departments. So close had the association of the Treasury and the C&AG appeared to departments that over a century later they would still refer to the auditors as Treasury auditors [Great Britain, 1980, PAC, Minutes of evidence, D Somers (a member of the E&AD), p.37]. Both departments and the auditors accepted that in a dispute over audit findings an appeal could always be made to the Treasury which had the authority to override the auditor [*1866 Audit Act*, s.27,s.31]¹⁰⁸. Indeed, it was part of the folklore of the E&AD that all the Treasury had to do was "show the auditor a Treasury letter and he shuts up like an oyster" [Robinson 1924, p.148].

Control over the staffing of the E&AD was extremely potent in reducing the effectiveness of the state auditor¹⁰⁹, in controlling the scope of audit, and thereby placing boundaries on Executive accountability, and undermining the status of the E&AD in the eyes of departments [Great Britain, 1980, PAC, Minutes of evidence, J. Garrett MP, p.50]. Unlike the Treasury, the E&AD was one of the first departments to have staff selected on the basis of the results achieved in civil service examinations [see Dunbar to Gladstone 6 February 1873, A/M 44,437]. This gave the appearance of minimising Treasury influence over appointments. In practice, the introduction of examinations had little or no impact on Treasury patronage for it was still left to the Treasury to select E&AD staff from the successful examination candidates. The use of

108. Correspondence between the Treasury and the Board of Audit is replete with demands by the Treasury to allow a previously disallowed account or to exempt an accountant from audit [Treasury to Board of Audit January 1866, T.6.26; September 1865, T.6.26; 23-1-1865, T.6.25; 13-12-1867, 15-10-1867, 31-10-1867, T.6.27].

109. During evidence before the PAC's inquiry into the E&AD in 1980, John Garrett (MP) criticised the Treasury for minimising the impact of the C&AG and his office on the information content of public accounts. Instead of Parliament having access to information concerning the quality of executive activities, as indicated by efficiency and effectiveness measures, Garret argued that thanks to the Treasury "we have hardly progressed beyond crude vote accounting". Appointment of the C&AG from the Treasury had ensured that "state audit has tended to take on the attitudes of our higher civil servants which give a low valuation to quantitative analysis and performance measurement" [Great Britain, 1980, PAC, Appendix IV, p.9].

civil service selection criteria also served to institutionalise the relative inferiority of the staff of the E&AD in comparison to other departments. The Treasury, by decreeing that the bulk of the staff of the new E&AD would be drawn from candidates with minimal educational standards sitting for lower level examinations, condemned members of the E&AD to civil service grades which were inferior to those of other departments [Treasury to C&AG, 12 May 1873, A.O.27.17]. This greatly concerned the E&AD who complained to the Treasury, in the case of their examiners at the War Office, that the E&AD "should not be unduly weakened as to position relatively to other Departments". The E&AD was only too aware that it would make their already difficult tasks of "criticism and judgement" even more onerous [Internal letter from Nicholas to C&AG, March 1873, A.O.27.16]¹¹⁰.

If the state auditor presides over an organisation which cannot operate without fear of Executive intrusion or retributions then the independence of the state auditor becomes isolated and of uncertain value. To laager the personal, legal independence of the C&AG from threats but to leave his office less protected exposes his office to capture by the Executive. If his officers are inhibited in the performance of their audits and in the conclusions which they reach in the audit reports then the personal independence of the state auditor is very much symbolic, for state audit's "real independence is ... tied to the autonomy of its internal administration and particularly to the methods of staff recruitment and promotion" ["Cours des Comptes and the Control of Public Finance", quoted in Normanton 1966, p.300]. The C&AG's legal independence might have been used to bring some measure of protection to the auditors when they appealed to him to step in on their behalf when they were in dispute with a department. Even then, the personal independence of the state auditor had a hollow ring to it for, apart from an appeal to the Parliament which would publicise the difficulties of his Office, the state auditor has been quite impotent. By the late 1880's Parliament was firmly controlled by

110. A further appeal was made to the Treasury by Dunbar (C&AG) on the 20 January 1874 [A.O. 27.17].

the party in government and thus it was to the Executive in the guise of the government and the dominant power in Parliament that the state auditor would appeal [for example Dunbar to Gladstone 6 February 1873, A/M. 44,437].

According to the *1866 Audit Act*, the state auditor was to be a conduit between the staff of the audit office and Parliament, although the C&AG was not to be directly answerable to Parliament as he would have been if he had been an officer directly appointed by Parliament¹¹¹. The requirement in the *1866 Audit Act* that all reports from the C&AG had to pass through the Treasury before being laid before Parliament greatly concerned the PAC in 1870. They thought that direct access to Parliament would give the C&AG "a higher and more independent position in the eye of the several Departments" [Great Britain, 1870, PAC, Report p.26]. While there was no direct line of accountability between the C&AG and Parliament, it was the C&AG whom Parliament expected to answer for the performance of the Exchequer and Audit Department. Thus it was the C&AG who was designated to sign the audit reports and it was the C&AG who was to take responsibility for the findings of his Office, frequently in person before the PAC [*1866 Audit Act*, s.22].

Limitations on the effectiveness and breadth of state audit were also imposed by the tasks it was permitted to perform. These reflected the issues which were given social and political prominence in the mid-19th century and the Executive's determination to maintain tight control over state audit.

3.6.5 Concern for Matters of Economy and the Victorian View of State Audit

The *1866 Audit Act* envisaged the role of the C&AG as one of discovery and disclosure "of facts" to Parliament and the Treasury [Great Britain, 1902, Committee on National Expenditure, Minutes of evidence, Richards (C&AG), Q.855]. This obligated the E&AD to

111. The National Audit Act in 1983 made the C&AG directly accountable to Parliament [s.1(2)].

sift the pecuniary transactions of the several public accountants, to classify them, to consider the legal and financial questions arising ..., to distinguish what requires notice and what does not, and to lay before the HC and the Executive the results of its deliberations [Romilly to Disraeli 1867, *BPP* 1867, Vol.XXXIX, p.185].

Gladstone was a staunch advocate of the supremacy of Parliament but he also recognised that the Executive needed to be free to pursue its policies. Accordingly, Gladstone, as Chancellor of the Exchequer, had conceived a very narrow role and a subordinate place for state audit in the firmament of government, one which did not extend to it becoming "an efficient control over public expenditure". Instead, he informed the House that the proper concern of state audit was

to ensure truth and accuracy in public expenditure. In point of fact, it may be called ... a Board of Verification. But it would be perfect presumption in the Board of Audit if it were for a moment to attempt to exercise a judgement as to any degree either of parsimony or of extravagance which the government might be thought to be adopting under the sanction of the House [HC debates, 11 March 1862, col.1350-51].

While Gladstone recognised that there was a role for the state auditor to report to Parliament he had earlier disclosed his belief that "the regular process of examination" of accounts should be "in the hands of the Executive Government" [HC debates, 9 April 1861]. Gladstone was not denying a role for the state auditor in encouraging economy in government, rather he was indicating that the state auditor would not be a free agent in fulfilling this role. Like the earlier audit reforms of his close friend Sir James Graham, Gladstone's financial reforms by enhancing parliamentary control of Executive spending were designed to encourage economy in the public sector. Soon after taking office as Chancellor of the Exchequer for the second time, Gladstone made it very clear that he was unhappy with the levels and growth of government expenditure and that he was determined to roll back to "a great degree" government expenditure to at least the levels of his last budget in 1853 [HC debates, 10 February

1860, cols.821-26]¹¹². This was entirely consistent with Gladstone's well known Peelite crusade or "holy war", both in the religious¹¹³ and prosaic sense, against profligacy in public expenditure¹¹⁴ [Gladstone to Lord John Russell, 22 July 1852, in Parker 1907, Vol.2, p.167; Gladstone to Palmerston 29 November 1861, in Guedalla 1928, p.195; *Edinburgh Review*, April 1857, p.561]. Buxton, who had married into Gladstone's family, described Gladstone as someone whose "passion was finance and whose dream was economy" [1901, p.25]¹¹⁵.

One of the duties of the C&AG was to draw the PAC's attention to financial questions which arose as a consequence of his audit. He was required to present information or "indictments" on these questions to help direct the Committee's enquiries [Great Britain, 1902, Committee on National Expenditure, Minutes of evidence, Bowles, Q.1017; quote from Anderson to Gladstone, 20 march 1866, A/M 44,409. fol.262]. It was not envisaged in the *1866 Audit Act* or any subsequent 19th century amendments to the Act that the state auditor would concern himself with departmental operating efficiency. Although the information provided by the C&AG prompted the PAC in its

112. Financial retrenchment frequently brought Gladstone into conflict with his leader Lord Palmerston who supported a strong interventionist foreign policy which required ever higher expenditures on the navy and the army [Palmerston to Gladstone, 19 and 22 October 1864, in Guedalla 1928, pp.297-300]. Gladstone was not an imperialist and therefore regarded with unease increases in defence spending. Disagreement between the two men, which Gladstone sometimes aired in public and for which Palmerston reprimanded him, at one point moved Gladstone to express his regret at having joined a government "which had extended views (on expenditure)" [Palmerston to Gladstone, 29 November 1861 and Gladstone to Palmerston, 29 April 1862, in Guedalla 1928, pp.208.197]. Gladstone had the arrogant belief that his views were always right.

113. "There was not a Member of the House who had more denounced prodigality than the right hon. Gentleman" [White, HC debates, 26 February 1866, cols.1100-1]. Gladstone said he believed that everything he was given was a trust from God. He reminded his wife that this placed a great obligation on everyone to turn from self and to act always with reference to the revealed will of God [Gladstone to his wife, 21 January 1844, in Magnus 1954, p.104]. As Chancellor of the Exchequer it was particularly apposite, he informed his electorate, that he should treat his authority to spend as a "sacred obligation" [29 November 1879, in Hirst 1931, p.243].

114. Gladstone's single minded pursuit of economy did not always accord with the public mood at the time, which came as a shock to him [Gladstone to Palmerston, 29 November 1861 and Palmerston to Gladstone, 29 April 1862 in Guedalla 1928, pp.195,205]. During his second term as Chancellor of the Exchequer it was usual for him not to make allowances for changing circumstances which may have forced increased spending on the government and "without any Examination of Details, to decide that Great Reductions must be made" [Palmerston to Gladstone, 7 November 1864, in Guedalla 1928, p.311].

115. Gladstone told his brother Robertson in 1859 that "economy is the first and great article ... in my financial creed" [quoted in Hirst 1931, p.241].

enquiries in any particular instance, the C&AG's interpretation of his mandate had been largely determined by the leading of the PAC [Great Britain, 1902, Committee on National Expenditure, Minutes of evidence, C&AG, Qs.853-61]. Both the PAC and the C&AG grasped very early that the monitoring of parliamentary appropriations in the hands of the Executive served both a constitutional and a pragmatic purpose. Almost from the inception of the E&AD, the PAC showed that it was prepared to interpret its mandate by taking a broader view of state audit, beyond providing checks on appropriations, which encouraged the C&AG in disclosures of waste and extravagance [HC debates, 1 April 1862; Anderson to Gladstone, 20 March 1866, A/M 44,409. fol.262; for an example see Great Britain, 1877, 'Report of the Public Accounts Committee', *BPP*, 1st Report, p.15, para.100; Great Britain, 1887, PAC, *BPP*, 1st Report]. Within a very short space of time, reports by the C&AG of waste rivalled that of misappropriations. By the time of Dunbar's retirement in 1888 questions of administration not approved by Parliament which embraced loss to the public purse had become well accepted as the legitimate concern of the state auditor. In the absence of a concern for waste the *Star* suggested that the Audit Office might as well be abolished [7 March 1888; also *St. James Gazette*, 27 February 1888].

Consideration of economy ie. wasteful spending, may appear to have been an unwelcome threat to the Executive, something which it would have strenuously resisted. In practice, the Executive had little cause to feel threatened. Most of the instances of waste unearthed by the C&AG were of a trivial nature: too much paid for medal ribbon for the army; horses purchased from the wrong supplier. It was very much a case of the auditor worrying about the pennies and the Executive's departments holding on very tightly to the pounds. When the auditor's persistent niggling became too much of a bother departments would complain loudly, not because the criticisms of the auditor involved substantial issues but more because the departments resented having to answer for their actions to a much lesser department.

Illumination and elimination of waste in the 19th century had been promoted by Burke's calls for reform in the late 1780's. He created a wave of righteous fervour, the effects of which were felt for most of the next century. According to one contemporary "oeconomy was the word ... which like the Sun, diffused its glorious spirit ... over the whole kingdom" [Quoted in Roseveare 1969, p.118]. The cry was later taken up and sustained at regular intervals in Parliament in the early 19th century, contributing substantially to Whig popularity [HC debates: Hume, 20 and 27 February 1829; Sir John Yorke, 13 December 1830; Sir James Graham, 29 March 1830; Buxton 1888, p.ix]. After the collapse of the Corn Laws the remnants of the Anti Corn Law League refashioned themselves as the Financial Reform Movement and with Cobden's leading sought commitments from the House in 1849 to reduce expenditure and taxes [Northcote 1862, pp.118-20]. Economy appealed to Victorian financial puritanism¹¹⁶ mainly because it anticipated lower expenditure and reduced taxes upon which, it was claimed, the health and security of the Nation depended [Palmerston to Gladstone, 8 May 1862, Gladstone to Palmerston, 2 May 1862, in Guedalla 1928, pp.216,212; Disraeli, Budget Speech, July 1856, in Northcote 1862, p.291; Buxton 1888, p.ix].

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meant public extravagance, and public extravagance meant additional taxation, which made itself felt by capitalists in lessened means of employing labour, and by the labourer in less work on the one hand and higher priced provisions on the other, as well as less education and less moral strength to meet the duties and bear the burden of life [Candlish, HC debates, 28 June 1869, col.628].

For the C&AG to come across instances of waste and to do nothing about it offended not only the core of Gladstone's financial creed but also that of the Nation at large. Highlighting instances when this financial doctrine was contradicted can be seen further as a natural extension of the account enquiries made by the C&AG. It was therefore unnecessary to refer to the monitoring of economy in the *1866 Audit Act* when this was a normal expectation. The audit cycle had the characteristics of a

116. That appreciation of the virtues of economy in public sector spending was a feature of government well before Victoria is clearly seen in the appeal of the 1810 Committee on Public Expenditure for retrenchment [Fifth report, p.407].

morality play in which personal and national salvation were secured by observance of financial rectitude. The final act in the play was the report to Parliament by the state auditor, after which everyone concerned could comfort themselves that they had played their part and the demons of extravagance in public finance had not escaped unscathed. By the eighties the mood of the Nation had changed as a result of the demands of a great empire and social and political reform. Increases in expenditure were resented less, although unnecessary waste was still shunned by the C&AG and the PAC [Great Britain, 1902, Committee on National Expenditure, Minutes of evidence, Welby, Q.2522; Roseveare 1969, p.200].

Although comments on waste came to be recognised as part of the responsibilities of the C&AG he was not to make recommendations for improvements in departmental management nor did he have the authority to force the Executive to remedy the deficiencies which the C&AG's office might bring to light [PAC Special Report 1866, Q.174; Gladstone, HC debates, 11 March 1862, col.1351]. To do so was seen as interfering with the rights of the Executive to do the job as they saw fit and thereby weaken the accountability of the Executive to Parliament [Great Britain, 1857, Committee on Public Monies, Minutes of evidence, Q.2636].

The C&AG had no Executive function; he was required to occupy a remote position with regard to departmental management, as opposed to matters related to accounting procedures, processes and legislated directions. This isolation was interpreted by the Executive and the state auditor as a means of bolstering the state auditor's independence for, if he made recommendations on management performance it would mean that when he next came to audit he would be auditing his own recommendations, something which would give rise to questions about the nature of the auditor's objectivity¹¹⁷. This suited the Executive, for by circumscribing the state auditor's

117. Audit legislation did direct the auditor to make suggestions for the improvement of accounts, the security of money or the collection of revenue. These were not matters which questioned the management of departments.

mandate to relatively straightforward matters of accounting and legality, or an audit where the intention was substantially negative, the *1866 Audit Act* quarantined Executive management from criticisms of its efficiency and effectiveness in implementing government policy. Certainly, as Gladstone stipulated, the state auditor was never to question the merits of government policy¹¹⁸.

Contrary to Normanton's argument, audit legislation in the 19th century did not set out "to limit the powers of government" [Great Britain, 1977-8, Submission to the Select Committee on Procedure, First Report, Vol.III, Appendix 43, p.137]. Instead it allowed the Executive to retain control over the management of its spending with the assistance of the state auditor's master the Treasury.

The window of reform forced open by the Legislature in the middle decades of the 19th century was resoundingly shut in the latter decades as the Executive reasserted its position.

3.6.6 An Ascendant Executive and Implications for Auditor Independence

From the mid 19th century constitutional form began relentlessly to desiccate the substance of Westminster government. 'Democratic government' was progressively eroded and in its place 'party government' and an 'electoral dictatorship' were imposed. By the close of the 19th century myths surrounding Westminster government as a form

118. This perpetuated the constitutional principle confirmed by the Select Committee on Finance in 1819 that

to vest in ... (the Board of Audit) a power to judge of the propriety or expediency of expenditure, would be to introduce a perfect anomaly into the state, and to alter the whole constitutional functions and responsibility of the highest departments in it. If a power were vested in an independent board of audit of entering into consideration of the objects or motives of this expenditure for the purpose of questioning its propriety ... it would, in effect, be placing ... a board of check and control over the Lord High Treasurer ...; it would, in effect, be investing in this independent board a power of questioning all the acts of the Crown, and of trying the whole executive government in regards to its expenditure. In short, it would amount to a delegation by parliament ... of those powers and functions which constitutionally belong ... to parliament and to parliament alone [Great Britain, 1819, Minutes of evidence, George Harrison (Treasury), Appendix to the Fifth report, p.205].

of responsible government had been exposed as being self serving ideologies in the hands of a powerful Executive. Bagehot's description of the operation of the constitution had shown that constitutional myths had been posing as reality for some time [Crossman, Introduction to Bagehot, 1963, p.2]. Mills' conclusion in *The English Constitution* that "an observer who looks at the living reality (of the Constitution) will wonder at the contrast to the paper description" showed a keen awareness of the political changes which had occurred in the 19th century. After a brief period of dominance in the middle decades of the 19th century Parliament was no longer the supreme power in the land; Parliament had become the much more acceptable public face of the Executive as it went about its largely self serving work of political preservation. When the interests of the party are held above that of the Parliament and being accountable to Parliament is seen by the Executive as extending a favour to Parliament instead of being regarded as an obligation of ruling, then responsible government is an illusory state [see Chapters 4 and 5]. Where there is no real responsibility between the Executive and the legislature it brings into stark relief questions about the role of the state auditor within a Westminster government as the means by which Parliament is able to hold the Executive financially accountable. When Parliament is dominated by the political agenda of the Executive, according to Garrett, audit control becomes "the Executive's method for the control of its own affairs in the name of Parliament" [Great Britain, 1980, PAC, Minutes of Evidence, p.49].

With the Executive once again in the ascendancy, after 1866 progress in the implementation of the *Audit Act* was faltering. For the *1866 Audit Act* to be effective it needed strong Executive backing and commitment to overcome the opposition which many commentators warned that it would face [Romilly to Disraeli, *BPP*, Vol.XXXIX, 1869, p.191]. Drawing on his considerable experience with the Board of Audit, Macaulay prophesied that the Act would not be popular with the departments of state who had been always used to minimal levels of interference in their internal affairs by outside bodies [1867, p.7]. The proddings and pokings of the E&AD, a department of

insignificant standing and lacking in independent authority apart from that which was reflected from the Treasury, would require considerable tact¹¹⁹ [Macaulay 1867, p.7]. Frequently the E&AD's predecessor, the Board of Audit, had expressed its concerns to the Treasury about the extent and nature of the resistance from departments with which it was faced and how it seemed powerless to overcome this in the case of the senior departments [Letter 30 July 1861, A.O. 27.17].

The *Audit Act* came into force in April 1867, yet by mid 1869 most of the major departments, including the great departments of state, the army and the navy, had not yet conformed to the Act [Candlish, HC debates, 28 June 1869, cols.626-7]¹²⁰. Of those accounts submitted for audit most were incorrectly stated and submitted beyond the date specified in the legislation¹²¹. Gladstone blamed these early deficiencies of audit on the difficulties of completing accounts which had to come from the far corners of the Empire and the lengthy process of implementing new accounting systems which would enable an appropriation audit to be conducted in most departments [HC debates, 28 June 1869, cols.629,631]. Although improvement did seep into compliance with audit requirements, towards the end of his term in office as C&AG Dunbar was still fighting battles, in the case of the secret services without success, for access to information and accounts [Dunbar to Gladstone, 24 March 1886, A/M 44,497, fol.291; also 26 May 1886]¹²². In his encounters with departments the C&AG often had the

119. The Board of Audit had long learnt that its dealings with departments required them not only to know their job well but also "good sense, ... tact as well as temper" [Letter from the Board to the Treasury, 30 July 1861, A.O. 27.17].

120. The C&AG was still complaining in 1891 about the army dragging its heels in providing information [Great Britain, 1938, *Epitome* Vol.I, pp.290-2].

121. In the C&AG's report for 1868 he revealed that of the 36 Class II votes only four had submitted their accounts and a statement of appropriations for audit. The Houses of Parliamentary Offices, the Treasury, the Colonial Office and the Foreign Office i.e. all the senior departments of state, had submitted neither accounts nor a statement. Of the 163 votes encompassing the civil service, 24 had been passed by the auditors, 88 were either incomplete or incorrect while 51 did not present anything to audit [Candlish, HC debates, 28 June 1869, cols. 626-8].

122. It was suggested in the press that Dunbar's retirement was engineered by a dirty tricks campaign by high government officials whom he had offended in the 'zealous' pursuit of his duties. *The Observer* on the 26 February 1888 reported that Dunbar was to retire. The following day the *Standard* announced that *The Observer's* report had been premature and unauthorised. On the same day the *St. James Gazette* criticised the announcement of the 26 February as a mischievous attempt to remove Dunbar and not an innocent mistake.

support of the Treasury who were also concerned about the fidelity of departments in following Treasury regulations [example in Normanton 1966, p.107].

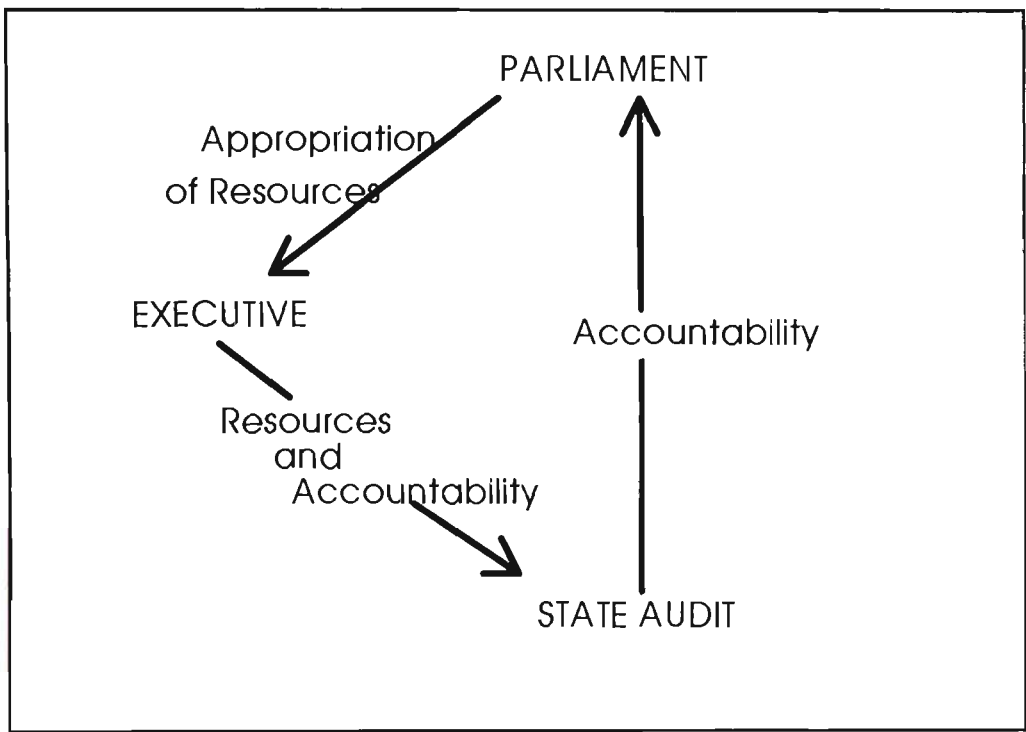
3.7 CONCLUSION

As noted at the start of this chapter, examples of the state auditor's ability to criticise and embarrass the government do not establish that the auditor works as an independent, untrammelled officer of Parliament. Rather, it suggests that within the mandate allowed and within the administrative and financial constraints imposed by the Executive the state auditor is able to have a limited impact. It has not been suggested in this chapter that the state auditor is a puppet of the Executive, or the legislature for that matter, colluding with the Executive in schemes to limit the intrusions of Parliament. What this chapter has endeavoured to show is that, however independent minded, honourable and committed to the task of audit a state auditor was there were always curbs to what he could do. These limitations were primarily derived from the legislation which governed audit which was in turn the outcome of social, personal and political forces. State audit in the 19th century was the progeny of a mix of these forces peculiar to that era which reflected: the oscillating fortunes of the Executive and the Legislature; the constitutional position and established rights and expectations of the Executive and the Legislature within the Westminster form of government; the concentration of political power in the hands of a small, wealthy and influential part of the Nation; the importance of personal relationships and networks within this elite whereby, frequently, the interests of one group or individual received preference over that of the majority; that matters of finance and audit were most frequently treated with disdain and disinterest by members of Parliament and were therefore neglected and, finally, the rise of an increasingly powerful and protective bureaucracy which was successful in strengthening Executive control over its affairs and bolstered its resistance to demands for accountability.

Independence in state audit had not been an issue prior to the introduction of appropriation audits in the mid 19th century. Audit was carried out by the Executive for the Executive. Although the *1866 Audit Act* substituted the legislature for the Executive as the ultimate recipient of most audit reports, the Executive did not relinquish its hold over the state auditor. Instead of being solely *for* the Executive, audit reports were now *about* the Executive. It therefore became more important than ever to ensure that the state auditor was closely monitored. To disguise its very substantial influence over the process of audit the Executive promoted a discourse of independence. Through this discourse the Executive sought to maintain confidence in the state auditor's independence. The discourse hinged on the C&AG being accepted as an officer who was not only to be independent in law but who was independent minded and possessed of great integrity which enabled him to resist Executive attempts to reduce his independence.

Figure 1 illustrates the accepted view of the constitutional relationship between the state auditor, the Executive and the legislature as it developed in the 19th century. It also highlights the undesirable potential for conflict between the Executive's accountability to Parliament through the state auditor and the Executive's role as paymaster to the state auditor. It is clear that under the influence of a powerful Executive the independence of the state auditor can be severely compromised within the classical model of Westminster government and that public sector accounting and audit can be captured by the Executive to become components "structured by the system in order to perpetuate itself" [Dillard 1991,25]. In the absence of virile Executive responsibility to Parliament state audit, is mainly a public relations exercise on behalf of the Executive.

Figure 3.1



The form of state audit arising throughout the 19th century was sufficiently well developed to carry it through virtually unaltered in its essentials until the 1970's in both Britain and Australia. In the next chapter the study of state audit independence moves forward to the circumstances which gave rise to state audit reforms and the changes introduced, especially those affecting independence, in the second episode of state audit.

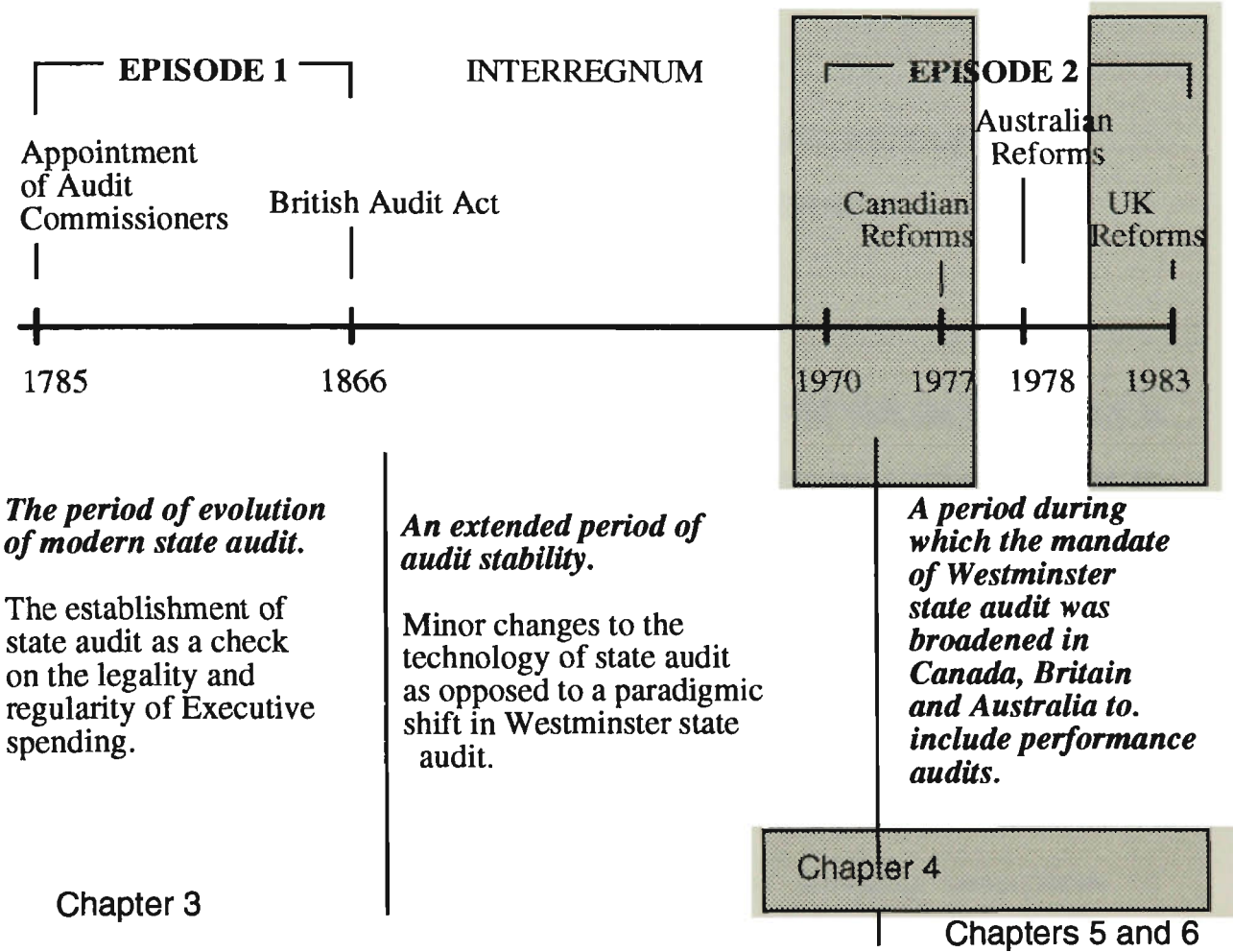
PART 2
STATE AUDIT REFORMED

CHAPTER 4

STATE AUDIT REFORM IN CANADA AND BRITAIN: THE ACHIEVEMENT OF SUBSTANTIVE INDEPENDENCE.

It must be considered that there is nothing more difficult to carry out, nor more doubtful of success, nor more dangerous to handle, than to initiate a new order of things. For the reformer has enemies in all those who profit by the older order, and only lukewarm defenders in all those who would profit by the new order. This lukewarmness arises partly from fear of their adversaries, who have the laws in their favour; and partly from the incredulity of mankind, who do not truly believe in anything new until they have had actual experience of it [Machiavelli, *The Prince*].

EPISODES IN THE EVOLUTION OF STATE AUDIT



CHAPTER 4

STATE AUDIT REFORM IN CANADA AND BRITAIN: THE ACHIEVEMENT OF SUBSTANTIVE INDEPENDENCE

4.1 INTRODUCTION

This chapter introduces the second episode of state audit and with the next chapter is meant to form a bridge between the two pinnacles of state audit reform relevant to Australian state audit; the establishment of modern state audit by the British *Audit Act of 1866*, as covered in the previous chapter, and the inclusion of specific legislated authority in the 1970's for the state auditor to carry out efficiency auditing, as covered in subsequent chapters. The main aim of this chapter is to locate the state audit reforms which took form in the 1970's within their contemporary economic and political context. It is particularly concerned with the way changing conceptions of accountability within Westminster governance was related to state audit reforms. To ensure that study of Australian state audit in Chapters 5 and 6 is not isolated from the wider socio-political context of movements in other Westminster governments the experiences of Britain and Canada form the focus of this chapter. In a similar manner to Australia, audit reforms in these countries were the culmination of long periods of state audit stagnation which saw little improvement in independence or any attempt to widen the legislated mandate of the state auditor to reflect changes in audit practices [Martin, Canadian House of Commons (HC) debates, 26 April 1977, p.5002-3].

Examination of the context *and* content of state audit reform in Canada and Britain in this chapter serves two important purposes for this thesis. Firstly, the study of these two countries will be used to develop insights into the problems experienced with similar, contemporary state audit reforms in Australia. This chapter will also show

how, under very similar economic and constitutional circumstances to those pertaining in Australia in the seventies and early eighties, reforms of British and Canadian state audit went much further than they did in Australia. Canada in particular was very successful in negotiating the transition from a state audit which owed more to the social and political context of the 19th century to one which was given the ability to meet the new demands of public sector management and changed accountability relations in the late 20th century.

The success and breadth of change introduced by the Canadians has been the envy of Australian state auditors. During discussions on the future of state audit in the mid seventies in Australia the experiences of the Canadians were used to demonstrate the direction which Australian state audit should take [Steele Craik, 1975, p.6]. Lidbetter, a senior member of the AAO, referred to the similarity with Australia of Canadian performance (efficiency) auditing [JCPA, 1985, Minutes of Evidence, *Inquiry into Australia Post*, 7 August, p.247]. Auditors-General Brigden and Taylor both used the Canadians as the model which they thought reforms to the independence of state audit should emulate: Australian state audit should be "brought into line" with the Canadians [Taylor, March 1989, p.6]. Brigden urged Parliament that reforms similar to the Canadians were well overdue [AAO, *Annual Report*, 1984-5, p.3].

This chapter, by examining two similar Westminster democracies provides a contrasting frame of reference for the Australian Commonwealth Government's approach to state audit independence. In the presence of close comparative examples the reluctance of Australian governments to provide a substantive basis to the state auditor's independence stands out in stark relief. Their actions are thereby not taken in isolation from the stream of change in other Westminster democracies. This allows the nature, extent and intent of Australian state audit reforms to become more discernible. Without this comparison it would be easy to underestimate the deficiencies of state

audit reforms in Australia in the late seventies associated with the emergence of a major shift in the form of governance.

Apart from the obvious constitutional kinship with Australia as a Westminster democracy, Canada has been chosen for the similarity of its state audit mandate and its comparable conception of independence of state audit with Australia¹ which came from the British *Audit Act of 1866*. In Canada, Britain and Australia the forces in the seventies leading to state audit reform and the specific reforms demanded by reformists bore unmistakable parallels. The British PAC in 1981 observed that "the similarities between the issues discussed in other countries (ie. Canada and Australia)² and those raised in evidence we have received (concerning British state audit) is striking" [Quoted in Fielden 1984, p.219]. Yet the final, concordant responses of Canada and Britain to state audit reform were very different in several crucial aspects from that of Australia.

For Canada, Britain and Australia the path to audit reform had been protracted, difficult and uneven. State audit reform did not arise as the result of any short and sharp stimulus. Reform in both Britain and Canada was prolonged by the resistance of entrenched interests. Ruling elites and vested interests are not known for giving in to demands for reform until the perils of delay become too great. Politicians in particular, the Canadian Comprehensive Auditing Foundation (CCAF) has observed, "do not normally give away sticks which they can be beaten with" [1985, p.7]. Very little changed in state audit in Canada and Britain from the passing of their main audit legislation in the 19th century to the changes introduced in the closing decades of the 20th century [Martin, Canadian HC debates, 26 April 1977, p.5002-3]. Normanton in a submission to the British Select Committee on Procedure in 1978 observed that the

1. In both these British colonies government structures were instituted to resemble as closely as possible, in the circumstances, those of Britain [Thynne and Goldring 1987, p.27; Emy 1976].

2. The Committee obtained most of their input about Australian state audit from the Australian Auditor-General Don Steele Craik who was a witness before the Committee.

Gladstonian system of audit remained unquestioned in Britain because in the administrative form of governance [see chapter 2] which had applied since the 19th century "the classical system of accountability created in 1866 appeared to suffice" [First Report, 1977-78, Vol.II, Appendix 43, p.133]. This meant that any alterations to the state auditor's work³ by legislative amendments prior to the 1970's were not in the nature of major reforms in the sense that they achieved a significant modification in the existing mandate. There is, therefore, a legislative void between the *1866 Audit Act* which dominated British audit and which was the form of audit borrowed by Australia and Canada and that arising from reforms in the late 1970's. Amendments throughout the century of audit separating these two episodes in state audit were almost exclusively concerned with the technology of audit and the level of checking required from the auditor [in the case of Canada see Balls 1978, p.596]⁴. It was the economic downturn of the seventies which finally forced the Executive's hand and precipitated administrative and audit reforms.

The state audit reforms in Britain, Canada and Australia which occurred within a span of just over 5 years (1977-83) arose from forces and conditions which were very similar in each constituency. Responses were also very close in that there was a marked similarity in the determination to give legislative backing and recognition to wider audit concerns which had matured in the difficult economic times of the seventies. At the same time that state auditors were given responsibility for performance or efficiency audits⁵, in Canada and Britain a number of measures were included in the legislation to enhance the independence of the state auditor. These improvements in the independence of the state auditor did not occur in Australia.

3. Unless indicated by specific reference, comments will refer to both Canada and Britain.

4. For Australia, apart from the usual minor adjustments arising from the application of the Audit Act the more significant amendments were passed in 1920 [No.23], 1926 [No.18], 1948 [No.60] and finally in 1978.

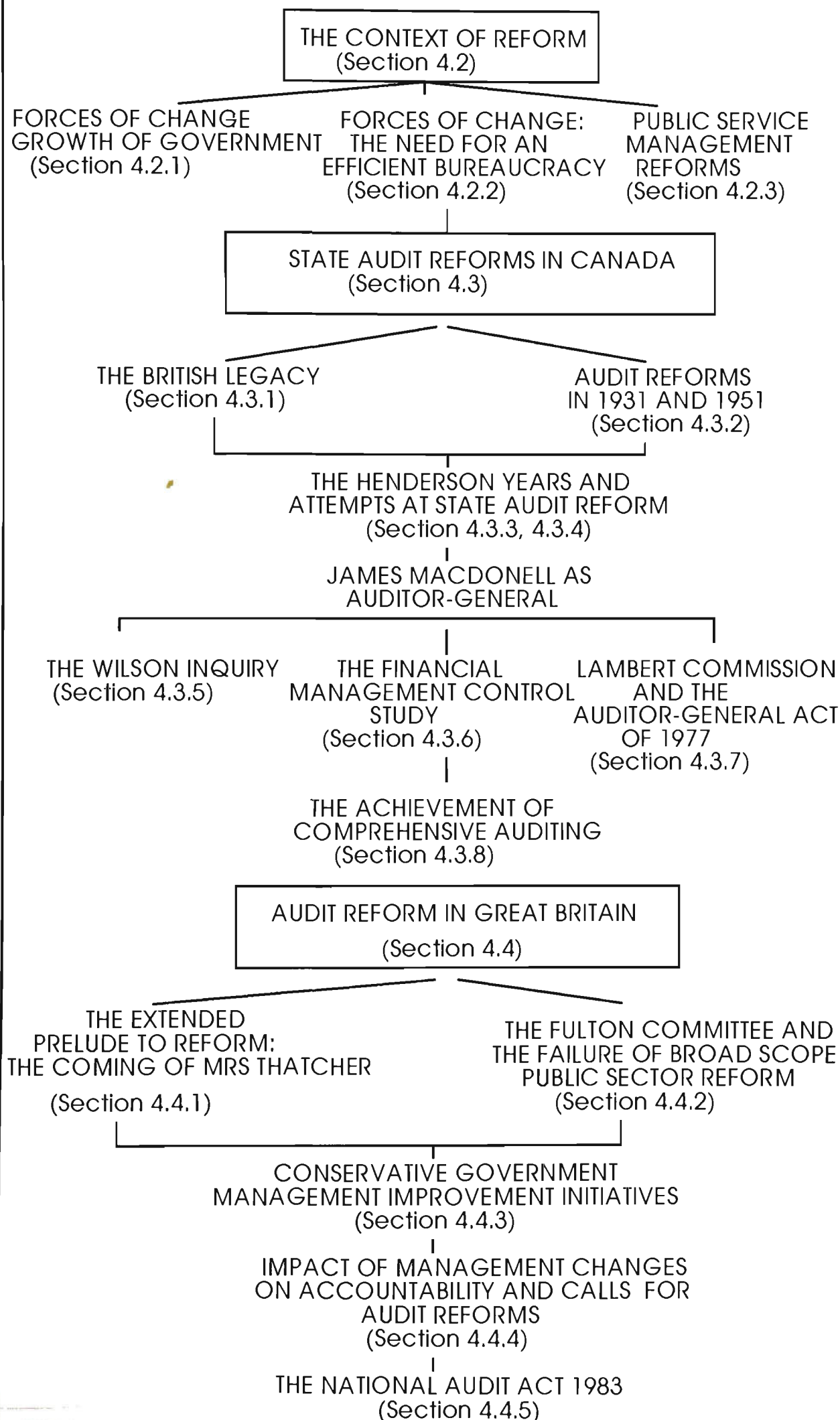
5. The terms performance auditing and efficiency auditing will be used interchangeably with each other and with value-for-money auditing.

Public sector inquiries into the issues of accountability, management ability and organisation of the public service in Canada and Britain which precipitated the changes to the nature independence of the state auditor could not separate the issues of an extended and more relevant audit mandate from the need to improve the quality of the state auditor's independence. In the case of Britain, the Executive *at first* resisted the recommendations of Parliamentary Committees and refused to consider any alteration to the existing form of independence. Similar resistance was met in Australia; resistance which has continued to the present despite a subsequent inquiry by the JCPA in 1988 which made a number of strong recommendations to bring substance to the state auditor's independence. Therefore, by comparing the responses of the Governments of Canada and Britain with the inertia and antipathy of successive Australian governments to replacing *substantive independence* for the existing *conditional independence* the durability of the discourse of state audit independence in Australia is further highlighted.

The next section explores the forces of change which were common to all three countries which prompted state audit reform. At least three main forces can be identified which created pressure for a change in governance in each of the countries in this study: declining economies, an increase in the scale of government and the associated expansion in the bureaucracy which was accompanied by public concerns about the breakdown in accountability and performance within and by the Executive (Connolly, National Government Accounting Convention, 1980). It is important to understand why state audit reform occurred when it did and why at almost the same time in all three countries. Discussion will then lead to the rise of concerns for efficiency and effectiveness in public sector management and the consequent managerial and audit reforms, firstly in Canada and then in Britain. Particular emphasis is given to the performance auditing mandate and provisions affecting the auditor's independence.

Section 4.2 includes discussion of Australia, Britain and Canada because of the close correspondence between socio-political conditions in these countries. Thereafter, the remainder of the Chapter focuses exclusively on Canada and Britain.

The path of this chapter can be summarised as follows:

CHAPTER 4 PLAN

4.2 THE CONTEXT OF REFORM

4.2.1. *Forces of Change: The Growth of Government*

In the 1960's most Western societies underwent a marked transformation associated with the world-wide prosperity which drove the decade. As the standard of living rose so did the expectations which people had of their governments, a relationship captured by Wagner's law of 'increasing expansion of public activities' [Self 1984, p.23; *Canadian Royal Commission on Financial Management and Accountability*, (Lambert Commission) 1977, p.1]. People not only demanded that the government provide the services which had traditionally been associated with government but also that the government become the main supplier of services not previously the domain of government.

Whereas the Canadian public sector had accounted for 30.7% of GDP in 1962, by 1976 this had risen to 41.5%. Over the same period Canadian Federal Government expenditures went from 17.4% of GNP to 21.1% [Lambert Commission 1977, p.16]. In dollar terms, between 1960 to 1978 Canadian Federal expenditures increased dramatically from \$6.5 billion to \$47.6 billion [Huntington 1978, p.43]. Most of this increase was attributable to the provision of new and existing social support schemes, social service programs in education, spending on health and housing and the expansion of the government's regulatory functions [Lambert Commission 1977, p.16]. A similar pattern was repeated in Britain [see section 4.4 following].

This expansion in government presence required a much larger bureaucracy. It also meant that when the economy entered a period when it was no longer buoyant enough to satisfy these ever growing demands placed upon the public purse the government would have to either wind back the provision of services or supply the existing ones at a lower cost to accommodate the ever present demands on the government to do more

[Lambert Commission 1977, p.29; Bailey 1977, p.28.]. As budget deficits increased in the 1970's and were translated into higher taxes so pressure was exerted on governments to rein-in their spending and ensure that taxpayers were getting value for the money taken from them by making departments and other government agencies more accountable for their performance [Steele Craik, *The Canberra Times*, 30 November 1980; Lambert Commission 1977, p.1; CCAF 1985, Introduction; Allard 1981, p.38].

It was not until the rising tide of public sector management reform and persistent public dissatisfaction with the economic performance of what was seen as a bloated and self interested bureaucracy that the role of the state auditor was seriously questioned.

4.2.2 Forces of Change: The Traditional Role of the Public Service and the Need for an Efficient Bureaucracy

In the mid seventies as the world economy began to contract governments were forced to be more performance and cost conscious and to face the need to regain control over the growth of public expenditure [for example see Senator Rae, *Newsletter of RAIPA*, June 1977; Emy, *Royal Commission on Australian Government Administration*, (RCAGA) 1976, Appendix 1, p.42]. As a means of accomplishing this, reducing the provision of services was a politically unpalatable option. This left the alternative of improving the efficiency and program delivery effectiveness of the public sector. To bring this about, however, would require a new public service paradigm: efficient management in Westminster governance had never been the priority of senior bureaucrats [Garrett 1972, pp.11-12].

Efficiency is a measure of the relationship between inputs or resources used and outputs or activities supported by the inputs. To become more efficient requires: either more outputs from the same inputs, the same outputs from fewer inputs or more

outputs from fewer inputs. Effectiveness is concerned with achievement of desirable goals or objectives. Effectiveness relates outputs, as defined above, with outcomes or the desired state to be attained by the outputs. To be effective is to achieve planned results.

Public servants were (and still are) expected to operate on the principles of equality of access to government service, equity of treatment and impartiality in judgements. Decision making on exclusively rational economic principles with efficiency and effectiveness paramount was not part of the public service creed [Jaensch 1978, p.75]. The traditional Westminster public service ethos had little to say about management performance. On the contrary, this was seen as a low level concern and certainly one not requiring the involvement of senior public servants [see for example Metcalfe and Richards 1987, p.51]. The British Committee on the Civil Service (Fulton Committee) in 1968 observed that

few members of the class ... (ie. the civil service) actually see themselves as managers, that is as responsible for organising, directing staff, planning the progress of work, setting standards of attainment and measuring results ... (M)uch of their work is not managerial in this sense; so they tend to see themselves as advisers on policy to people above them, rather than as managers to the administrative machine below them [quoted in Garrett 1972, p.21].

Public servants were expected to be politically neutral agents of the Executive and to be intensely loyal to, and protective of, their Minister [Tange 1982, p.7; Baker 1980, p.544]. Etzioni and Helevy [as quoted in Metcalfe and Richards 1987] see the traditional model of the public service, therefore, as self contradictory. Democracy required the bureaucracy to be "both independent and subservient ... both politicised and non politicized at the same time" [p.87]. To fulfil their imposing role the most valued qualities of senior administrators were an ability to solve quickly policy problems and to have a comprehensive network of contacts throughout the upper

levels of the public service. Good management was construed as controlling and minimising political damage, preventing serious mistakes and spending within the limits specified by Parliament [Beale 1985, p.376-7].

The Minister's overriding concern in the operations of his/her department was to ensure that the political future of the Government was not put in jeopardy by some act of commission or omission by his/her department. To this end, it was the responsibility of senior public servants to ensure that the Minister would be able to deflect consistently the barbs of detractors. Management skills were relevant only to the extent that they were not deficient enough to be the source of political embarrassments. These characteristics entrenched timidity in innovation throughout the public service, left poor performance unquestioned and erected formidable barriers to change. The apprehensions of politicians about losing office tended to affect operations at all levels in the public service. There was a

fear of involving Ministers in having to account for the operations of which they have no first-hand knowledge ... (which) leads officials to excessive caution and secrecy, to insistence on passing decisions up to levels far higher than their merits warrant and to consequent delay. Thus, the practical application of Ministerial responsibility ... has brought managerial inefficiency [a senior civil servant quoted in Garrett 1972, p.190].

Public servants were purported to be there to serve with equal competence and respect whichever party was in power. Indeed, all political parties in Westminster governance believed that the party in power was "entitled to expect that it will be able to deal with the public service on a basis of complete confidence in its political impartiality" [Malcolm Fraser (Prime Minister), House of Representative (HR) debates, 18 November 1976, p.2865]. Others, however, have seen the characterisation of the public service as impartial and objective as a convenient myth: convenient both for the government of the day and for the anonymous bureaucrats [Whitlam, HR debates, 16

February 1977, pp.115-16; Gray and Jenkins 1985, p.81; Metcalfe and Richards 1987, p.47].

By the seventies, dogged adherence to the principle of anonymity and excessive concern for the political well-being of the Minister was increasingly criticised as the major impediment to the efficient and effective delivery of services in the public sector [Beale 1985, p.376; Spann 1977, p.79; Garrett 1972]. Anonymity was now seen as a weak link in the chain of accountability; it allowed the public servant to escape public censure for poor performance.

Pressures arising from expanded government and harsh economic times meant that the public was no longer prepared to let accountability lie with its elected representatives. Throughout the 20th century it was becoming increasingly obvious within Westminster democracies that ministerial accountability had become a hollow, desiccated shell, a 'fiction', yet still sufficiently convincing to sustain belief in the efficacy of the principle [Baker, Canadian HC debates, 26 April 1977, p.5010]. The reality was that the trail of responsibility and, therefore, accountability fell cold soon after leaving the Minister. While in theory the anonymity of public servants and the concomitant principle of ministerial responsibility meant that public servants should not be held personally accountable in public, Ministers would disclaim responsibility as often as they could and where possible sheet the blame for failures to faceless public servants. Thus, in the absence of a strict rendering of ministerial responsibility the anonymity of the public servant provided an amorphous scapegoat for Executive problems. To the public it appeared that no-one was being brought to account. Giving pre-eminence to Ministerial responsibility as the cornerstone of Westminster accountability meant that Parliament has

acted as if ministerial responsibility were the only constitutional principle worth guarding, and as a result have eviscerated Parliament's

mandate to scrutinise the executive [Baker, Canadian HC debates, 26 April 1977, p.5011].

Emy in his controversial paper for the RCAGA commented that

(i)f, in cases of administrative error, only the strict or personal sense of responsibility can be brought home to the minister, and then with difficulty, and in exceptional circumstances, there seems less chance of ministerial responsibility acting as a viable system for imposing a positive degree of accountability upon the behaviour of individual civil servants. This implies that, in reality, *control within ministerial departments would have to depend increasingly on people and procedures other than those indicated by ministerial responsibility* (emphasis added) [RCAGA 1976, Appendix I, p.21].

The usual argument that the Minister and his government colleagues ultimately cannot escape the consequences of their own actions and those of their departments but instead will be held accountable at the ballot box provides only a partial justification for the continuation of Westminster constitutional relationships. In instances of wrongdoing, neglect or bad management which are not sufficiently extreme to warrant an election the Minister will be able to remain unaccountable [Emy, RCAGA 1976, Appendix I].

The anonymity of the public service was founded on a doctrine of separation of responsibilities where public servants were concerned with administration ie. the implementation of policy, while politicians were responsible for making policy. Accordingly,

determination of policy is the function of ministers and once a policy is determined it is the unquestioned and unquestionable business of the civil service to try to carry out that policy with precisely the same energy and precisely the same goodwill whether he agrees with it or not ... [Warren Fisher quoted in Bowden 1979, p.299; Emy, RCAGA 1976, Appendix I, p.16].

Between administration and policy there was said to be a divide, the breaching of which would be in neither the interests of the politician nor the administrator. Although it had long been realised that this dichotomisation was more myth than reality it

continued to be relied upon by both sides of the public service for their own ends [Dillon 1985, p.250; Richard Crossman (1977), Barbara Castle (1980) and Nigel Lawson (1976) in Gray and Jenkins 1985, p.6]. Contrary to the accepted beliefs, Wilenski⁶ has pointed out that in the development and implementation of policy in Westminster governance there is little difference between the administrator and the politician: both are politically motivated [1979, p.348]. Public servants were in reality "statesmen in disguise" [Garrett 1972, p.23]. Perpetuation of the image of a politically disinterested and naive public service who had little influence over policy formulation, according to Wilenski, has allowed the politicians to devote their energies to politics and permit the senior public servant also to engage unimpeded in political manoeuvring, thereby escaping accountability for their actions [1979, p.349]. It is suggested that a more realistic view which is not obscured by the rosy tint of partisan constitutional mythology portrays public servants as

ruthless, power brokers: ... always ready to thwart the legitimate programmes of any government bent on reform which is seen to conflict with their own preferred definitions of reality [Thynne 1983, p.80].

The durability and robustness of the image of the public servant purely as a facilitator of government policies therefore has been made possible by the collusion of elected politicians. By promoting a belief in the separation of administration and politics the accountability of the elected is narrowed to the intent and implementation of government policies and not their detailed management or administration. In return, the convention decreed that public servants must not be named in or called before Parliament for the failings of the government: the anonymity of the public servant should not be breached [Sir Arthur Tange, *The Canberra Times*, 21 January 1975]. Anonymity could also conveniently be used to justify the need for secrecy and to limit public access to the workings of government [Emy, RCAGA 1972, Appendix I, p.26]. This cosy arrangement kept the politician out of much of the day to day running of

6. Wilenski is mostly remembered for his inquiry into the NSW public service in 1977-78.

departments, which suited public servants, but at the same time it limited the accountability of both parties and therefore deprived Parliament of the ability to scrutinise the work of administrators [Wilenski 1979, p.350]. Rather than this being seen as a weakness, secrecy has been seen as a virtue of the traditional Westminster public service culture. It ensured that

Official advice to ministers is held confidential; the Cabinet official committees and working parties, the deals, bargaining and conflict ... are interdicted subject matter for the legislature ... Parliament is the permanent and proper stranger whose very presence indirectly helps nurture the sense of community within the Executive [Heclo and Wildavsky 1981, p.244].

The ability of the public servant to influence policy unseen by the public meant that their actions were not accessible to public judgement and therefore the issue of their accountability was not something which was brought to the public's attention. The end result of this farrago of nods and winks between politicians and public servants, decided the RCAGA, was administration which was unlikely to be either effective or economical [RCAGA Report, 1976, pp.12-13].

Any efforts to control the growth, performance and accountability of the public sector had little trouble in gaining public support if it meant that the existing level of services would continue and/or taxes would be reduced. Besides, the public had long held the view that as the public sector bureaucracy had grown so had its inefficiency [*The West Australian*, 14 February 1975]. It was seen as wasteful, unresponsive to either the wishes of the government of the day or the clients of the public service, unconcerned and arrogant and prepared to use its considerable power in self protection and to further its own interests, if necessary at the expense of those it was meant to serve [Self 1984, p.143; *The Age*, 2 August 1976, report on the Coombs Commission; Spann 1981, p.17; Beale 1985, p.376]. The arrogance of the public service, it was suggested by Barry Jones MP., was sufficient for it to regard Parliament "with contempt and

regards itself ... free to override it" [*The Age*, 17 December 1980]. To accomplish this there did not need to be a service-wide conspiracy. Instead, the common culture in which all public servants worked and the network of professional indebtedness and obligation encouraged shared beliefs and formidable group cohesion. The public service countered these allegations of self interest by arguing that it was the "sheer inertia" of a large body like the public service which "frequently gives the *impression* of deliberate delays and often opposition to government policies" [Timbs, Permanent Head, Department of Services and Property, Australian Government, *The West Australian*, 14 February 1975]. The Fulton Committee in Britain and the RCAGA disagreed with this view, both seeing the public sector bureaucracy a protective elite which was able to use its privileged position to perpetuate itself.

To the British Expenditure Committee in 1977 the considerable power of the public service bureaucracy had created an alarming struggle for supremacy with the Executive, who at the time was attempting to roll back expenditure. So concerned was the Committee that they saw the resolution of the situation in favour of "political power and authority ... as a central need of our age. It is part of the struggle for democracy itself" [Eleventh Report, 1977, quoted in Wilenski 1979, p.353; see also Divine 1979, p.144]. This was echoed by the Australian Commonwealth Ombudsman in November 1978 who argued that the most serious

challenge to the public service and its managers is in the direction of making the public service accountable for its activities ... The Minister responsible to Parliament ... is no longer regarded as constituting a sufficient link between officialdom and the public [quoted in Tange 1982, p.3].

As chapter 3 has shown, the traditional form of public service bureaucracy which evolved in Britain in the 19th century was appropriate with a form of governance which was stable over long periods of time, where the government played only a relatively insignificant role in people's lives and where the public service was small and

manageable. Changes which were occurring in the form of governance in the three Westminster democracies in the 1960's and 1970's brought the traditional public service modes of operation and systems of beliefs about accountability on a collision path with demands for enhanced Executive accountability [Spann 1977, p.79]. The Gladstonian system of public administration was no longer capable of accommodating the changes now necessary in public sector finance and administration. Whereas originally

it was meant to be a method for achieving democratic accountability (t)oday, the pre-democratic values implicit in its regard for executive privilege, together with the effects of party government, have undermined the democratic values themselves.

Today, it is unrealistic to talk of the absolute responsibility of the minister or of the complete anonymity of the official [Emy, RCAGA 1972, Appendix I, p.45].

The 19th century public service inherited by the three Westminster democracies had been designed to ensure the accountability of departments of state which received their funding from Parliament and which were clearly answerable to Parliament. In the 20th century the strength of the Executive increased and a remarkable growth occurred in extra-departmental agencies, mainly statutory authorities, which did not depend upon Parliament for regular sustenance and for whom there was therefore ambiguity as to the nature of their accountability to Parliament. Through the use of these agencies the Executive could escape scrutiny over some of its operations. As a consequence of the proliferation of these Executive agencies, according to the *British Committee on the Civil Service* in 1968 [hereafter the Fulton Committee] "the traditional methods of parliamentary scrutiny have often failed to enlarge parliament's knowledge of what goes on or to secure for it a proper influence ..." [quoted in Parris 1969, p.305]. Whereas previously the public had been led to believe that the public servants' integrity, impartiality and high ethical standards of conduct would ensure accountability this was now seen as inadequate.

'Independent accountability' [Laframboise 1983] or holding oneself accountable for one's actions, being guided by one's conscience, has been held out by public servants as the great strength of the traditional public service paradigm. Individual conscience and integrity were argued to be at the heart of the work of public servants; they were inner directed, primarily feeling the need to be accountable to themselves. Independent accountability reflects a public service culture which expects that its members will be driven by high ideals arising from an internal locus of control. They will carry out their duties to the best of their ability to meet the goals of government policy, because it is important to them, not because they fear some retribution.

This, independent, form of accountability, it has been argued, did not depend upon extrinsic rewards for its fulfilment: it could not be bought. It was a form of accountability which was far superior to "dependent accountability" which relied for its success on rewards emanating from external forces [see Tange, *Address to the Australian Society of Accountants*, ACT division, 17 July 1979, p.4]. Dependent accountability places the public servant in a position of dependency with the result that "you're getting leaners - people who lean on external systems rather than develop their own sense of accountability" [Laframboise 1983, p.327]. Dependent accountability was argued to be inferior because it could not draw from strong ethical forces within the public servant, thereby debasing the public sector. With independent accountability the public were expected to let their confidence reside in the character of the public servant, knowing that in the end duty and uprightness of character would ensure that the interests of the public would always be served.

In a form of governance in the late 20th century which was vastly different to that of the 19th century, the exercise and control of modes of accountability in the hands of those accountable could no longer continue. By the early 1970's, at the time the Coombs Commission convened, it had become only too obvious that

(p)artly as a result of the decline in ministerial responsibility ... it (was) no longer clear where the official's responsibility to his minister begins and ends. This is not just a problem of personalities ... (but) is a growing constitutional dilemma. Together, the minister's withdrawal from administration, the official's growing managerial responsibilities, and the decline of the convention governing the allocation of praise and blame have subtly affected the hierarchical chain of responsibility [Emy, RCAGA 1976, Appendix I, p.62].

In the seventies a strengthening of the accountability of the bureaucracy to the Executive, but more especially to Parliament, therefore, was increasingly demanded [Great Britain, 1980, Minutes of Evidence, Committee of Public Accounts, Garrett, p.48; Emy, RCAGA 1972, Appendix I, pp.16-23]. This would require the formalisation of new dimensions to accountability and additional means to enforce these changes, as covered in the following section.

4.2.3 The Impact of Public Service Management Reforms on Accountability and State Audit.

Demands for enhanced accountability could not be met with existing methods and institutions in their traditional and largely 19th century form. From his definitive study of the United States General Accounting Office [GAO] Mosher observed that

the demand for effective accountability in government is accompanied by an increase in the difficulty of assuring such accountability. The old, direct meaning and means of accountability are much less than adequate in a vastly changed and changing society with a government that is endeavouring to be responsive to its dynamic demands [1978, p.236].

At the heart of the new accountability demands was an expectation that there would be an evaluation⁷ of the operating performance of public sector agencies. A move from an independent to a dependent accountability therefore had implications for state audit. With the managerialist changes in the public sector and its associated concern for the

7. Evaluation has been defined as "the consideration of the current world and speculation about ways to achieve a desired future state" [Cronin 1990, p.8].

performance of the public servant, as measured in the achievement of agreed objectives, the state auditor was made part of the process of performance evaluation.

The harsh economic times called for new technologies of accountability which would give greater visibility to the wise use of public sector resources. It was to fulfil this need that efficiency auditing or value-for-money auditing was developed in Australia, Canada and Britain. At the same time, the significance of state audit changed. Throughout its development state audit had been a largely passive instrument of accountability, concerned with system maintenance rather than change. By asking the state auditor to be an arbiter of agency performance they were being thrust into the role as an agent of change [see Hopwood 1984, p.171; Emy, RCAGA 1976, Appendix I, p.58]. They could therefore expect to come up against those who did not want change thrust upon them. It soon became obvious to state auditors who were to be entrusted with these evaluations that the two processes of arriving at objectives and using them for performance evaluation were to be hazardous undertakings because objectives are "saturated and shaped by values and thus inevitably partial and contestable" [Henkel 1991, p.122; see also Cronin 1990, p.9]. In part the process was contestable because of the ambiguity of notions of efficiency and outputs with which the state auditor was dealing. Thus

although the ideas appeal to the comparison of inputs and outputs ... the delineation of those inputs, outputs, resources and consequences remains both a practically and conceptually difficult endeavour ... [Hopwood 1984, p.175-6].

Giving a high priority to the accountability of management for their performance is a feature which is consistent with a form of governance where the government plays a major role in the management of the economy. When compared to public sector expenditure and the network of varied agencies through which it is implemented in Australia in the latter part of the 20th century, the scale of public sector expenditure in

the 19th century and early 20th century was the product of very limited government. If government sees its role purely in terms of the regulation of social and economic order so as to provide the conditions which will foster market exchanges and enhance the collective wealth of the state then measurement of the economic performance of the public service will not be the prominent concern of state audit. In this conception of administrative governance public servants are appointed to implement, monitor and structure the rules of social and economic engagement. Concern on the part of the state auditor for the punctilious stewardship of public funds ie. economy, enforced the expectation that the public servant would treat public property as next to a sacred trust. Therefore, the obsession of state audit in Westminster democracies with fiduciary accountability reflected the legalistic and structural role which the public servant was expected to perform. They were not to ask 'why' or 'how' but 'what' and 'what with'. As honest and faithful stewards they had nothing to fear by being made accountable to the Parliament through the state auditor. Audit sought out fraud, wasteful spending and indolence as exposed in poor accounting and inattention to detailed regulations, most importantly those of the Treasury. The administrative form of governance and its attendant public service ethics therefore did not admit other concerns of audit.

The new performance auditing role expected of state auditors in the seventies was one they all actively sought to embrace. They were not being asked to do something which was completely novel to them; it was not, they argued, a change in type, more a change in degree. Pressure from their international peers to advance the comprehensiveness of state audit meant that to ignore the need for reform would be at their own professional peril [Skene 1985, p.282]. The example of the GAO was a particularly strong influence over the timetable of audit reform in the seventies and the form it would take in Canada and Australia, even though the constitutional form of governance in the United States was significantly different to the Westminster democracies.

In all three Westminster countries the expansion of the state auditor's performance auditing role occurred without adequate preparation of the public service [Normanton 1966, p.26]. State auditors were expected to implement an audit technology which was output focussed or results orientated when the public sector was still operating in a culture which considered attention to inputs as preeminent. Departments were by tradition inward looking and hierarchically organised with responsibility exercised in a clear unbroken vertical line. Introduction of performance evaluations cuts across these vertical structures by emphasising professional judgement predicated on community preferences and demanding accountability for accomplishments on the basis of goals incorporated into programs of attainment.

Change in public sector management and audit did not come easily. There were: false starts, for example the *Royal Commission on Government Organisation* (Glassco Commission) in Canada 1960-62; thwarted plans, the Whitlam Government in Australia 1972-75 being a notable example, and there was persistent resistance. Any change would have to be brought in over the 'bodies' of most of the senior public servants who could be depended upon to use the tremendous inertia of the machinery of government which they commanded to stall or slow the pace of change [Thynne 1983, p.82; Normanton 1966, p.198; Metcalfe and Richards 1987, p.52; Gray and Jenkins 1985, p.53]. "It would be very strange", reflected Coombs when recently released from the RCAGA, "if officials did not come to identify themselves to some degree with the programs in whose design and administration they had been deeply involved" [1977, p.54]. In the case of Britain, Metcalfe and Richards have reflected, change had been made very difficult because of resistance generated and sustained within the bureaucracy by the constitutional myth of the financial supremacy of the House of Commons. Essential to sustaining this belief was the high value placed by Parliament on the relationship it had with the Treasury. This encouraged the Treasury to see itself not just as a financial body but became identified with preserving the constitutionally sacred

values of public accountability and democratic control. An inversion of culture and structure has taken place. Instead of institutions being regarded as the means of serving values ... they are perceived as embodiments of values. ... Changing the rules of the game arouses strong emotions because the guardians of public money are apt to see themselves as guardians of the myth that legitimises their power [Metcalf and Richards 1987, p.200].

In these circumstances decisions to bring about improvements in the efficiency of management had to be taken

in the certain knowledge that attempts at improvement or reform will receive considerable criticism from the proponents for maintaining the status quo, decisions on major structural or procedural change require a particularly strong commitment to administrative reform ... [Bowden 1979, p.299].

Those opposed to the new managerialist emphasis in the public service, with its private sector-derived aspirations, since the seventies have argued that it has led to the passing of the traditional public service values of propriety, fairness, duty, frugality and equity, which were founded upon the values of respect for the policies of elected officials and the apolitical implementation of these [Laframboise 1983, p.328].

Discussion in sections 4.1 and 4.2 has covered the constitutional principles of ministerial responsibility and concomitant approaches to accountability. It has also been argued that adverse economic conditions in the 1970's translated into political pressures which compelled governments to re-examine traditional modes of accountability and to revolutionise public service culture. It was no longer acceptable that departments and other agencies be the arbiters of what constituted efficient and effective management. A managerial form of governance had to be substituted for the now outmoded and grossly inadequate administrative governance bequeathed from mid-19th century Britain. Executive program and policy objectives, if present, could

only be maintained and extended by getting the public service to work more efficiently and to be aware that they would be held accountable for the results.

In section 4.3 following, the impact of the forces and trends identified in section 4.2 are examined in Canada in the 1960's and 1970's. It illustrates how Canadian state audit came from a position of dependence to be a highly independent office equipped to meet the new accountability requirements of a managerial form of governance. Firstly a brief overview is provided of Canadian audit legislation with the intention of showing the central role of the Treasury Board. This is followed by a survey of audit changes subsequent to the original *Audit Act*. In sections 4.3.3 and 4.3.4 the battles of Auditor General Henderson with the Executive to extend his mandate are detailed. Sections 4.3.5 to 4.3.9 cover the ultimately successful efforts of Auditor General Macdonell to improve the independence of Canadian state audit.

4.3 STATE AUDIT REFORMS IN CANADA

4.3.1 The Establishment of Modern State Audit and the British Legacy: The 1878 Canadian Audit Act

The appointment of Maxwell Henderson as the Canadian Auditor General in 1960 marked the commencement of a period of great turbulence in state audit. Henderson's highly publicised battles with the Executive were a stimulus for the state audit reforms of the late seventies under his successor James Macdonell. The increasing antagonism between Henderson and the Executive arose from his determination to give greater emphasis in the work of his office to instances of mismanagement and inefficiency, referred to as "unproductive expenditure" by Henderson's predecessor Watson Sellar. Henderson was the state auditor during a period when Canadian governance was approaching a period of transition, from an administrative to a managerial form, propelled mainly by the economic changes which were to contribute to a transformation of Westminster governments throughout the world.

The principles which directed state audit when Henderson came to the Office were still very much those enshrined in 1878 in *An Act to provide for the better Auditing of the Public Accounts (1878 Audit Act)* [Henderson 1984, p.162]. As a former colony of Britain, Canada based its state audit legislation on the British *Audit Act of 1866* and endeavoured to follow British practice and experience in the implementation of the Canadian Act⁸. The first Auditor General appointed under the *1878 Audit Act*, John Lorn McDougall⁹, wrote in 1879 in his first report to Parliament that "so far as circumstances permit, it is advisable in such contingencies as are not provided for by our statute, to follow the system which has grown up under the English act". Little had changed when Henderson took office. Despite the close proximity of the United States, to consult other sources other than England in matters of state audit "would have been out of the question" [Henderson 1984, p.162].

In most instances the major provisions of the *1878 Audit Act* are almost mirror images of those contained in the British *1866 Audit Act*. In the *1878 Audit Act* it was given to the Governor General to appoint the Auditor General¹⁰, and on the advice of the Senate and the House of Representatives to dismiss the Auditor General [s.11,12]. Despite this involvement by the Executive, during introduction of the 1878 Audit Bill the Minister of Finance expressed contrary opinions of the independence of the new state auditor. He indicated that

8. The Auditor General of the Public Accounts in Canada after independence was still in frequent contact with Britain. Soon after the passing of the British *Audit Act* in 1866 he wrote to the British Treasury seeking information about the new system of audit to be implemented [T.6.26, 1 February 1866]. The Treasury referred his inquiries to the C&AG with the recommendation that the Canadian auditor be give whatever assistance possible.

9. McDougall was Auditor General 1875-78 and then Comptroller and Auditor General 1878-1905. McDougall was followed by John Fraser from the Finance Department who held office until 1919 when E.D. Sutherland assumed office. Sutherland was to be the only C&AG to come from within the Audit Office. He was replaced in 1923 by Gonthier, a Montreal accountant, who lasted until 1939 when Watson Sellar was brought in from the Comptroller of the Treasury. He remained in office until Henderson arrived in 1960.

10. The Act seems to have left it open to the Governor General, and therefore the Executive, as to whether they were compelled to appoint a state auditor. Rather than say that the Governor General "shall" appoint a state auditor the Act stated that the Governor General "may appoint an officer to be called the Auditor General of Canada" [s.2].

it would be desirable to have a perfect division, whereby the task of auditing the public accounts should be kept as much as possible quite distinct from any interference on the part of an officer charged with administrative duties ... The main object of the Bill was to carry that out, and inspire the public with confidence in the public accounts. It was deemed expedient, therefore, to adopt the British practice ... [quoted in Balls 1978, p.586].

The state auditor's independence was argued to be enhanced by making his appointment applicable during "good behaviour", with no retirement age specified and requiring that he was to be paid out of the Consolidated Revue Fund [s.12]. Reflecting the practice in Britain, the state auditor was to perform the roles of both comptroller and auditor [s.30,31,34,40]. To assist the state auditor, the 1878 *Audit Act* gave the Governor in Council ie. the Governor General advised by the Executive, the authority to appoint audit staff and to determine salaries and gradings [s.13]. The state auditor was given the ability to make

rules for the conduct of the internal business of his office, and to promote, suspend or remove any of the officers ... and to prescribe regulations and forms for the guidance of principal and sub-accountants in making up and rendering their periodical accounts for examination [s.15].

These powers were, however, conditional on final Treasury Board¹¹ approval [s.15]¹². It is not surprising given the British ancestry of the 1878 *Audit Act* and the dominance of the Treasury in British state audit, that the Treasury Board was given the central role in the supervision of state audit.

The state auditor was required to conduct an audit on behalf of the House of Representatives to determine

11. The Treasury Board consisted of the Minister of Finance, the Minister of Customs, the Minister of Inland Revenue and the Receiver General, with the Minister of Finance acting as Chairman [1878 *Audit Act*, s.16].

12. The same staffing restrictions and powers were found in the British *Audit Act* [s.9]. The wording of these sections from the two acts is identical for the most part.

whether the payments which the accounting department has charged to the grant are supported by vouchers or proofs of payment¹³; and ... whether the money expended has been applied to the purpose or purposes for which such grant was intended to provide ... and shall report to the Minister of Finance any expenditure which may appear ... to have been incurred without such authority [s.42].

Appropriation accounts prepared by individual departments were to be in a form determined by the Treasury with the result of the examination to be laid before the House by the Minister of Finance [s.34]. Therefore, the state auditor did not have direct access to the Parliament; his reports had to go through the Executive. The Act did provide that in the event that the Minister of Finance did not present the state auditor's report within a prescribed time then the state auditor was able to present it himself. In this way the special relationship between the state auditor and the Parliament would be protected to some degree. The Act did not make it a mandatory requirement that all departments submit accounts to the state auditor, only those departments directed by the Treasury [s.37]. The Treasury could also direct the state auditor to examine accounts which were not specified in the Act [s.48].

In all cases where there was a dispute of whether an amount should be allowed as a discharge in an accountant's reports it was up to the Treasury Board to decide on the matter [ss.45,50,73]. The *1878 Audit Act*, therefore, established a state audit function which not only mimicked the duties of British state audit but also incorporated the same limitations arising from the authority of the central financial agency of the Executive. The audit was to be limited to matters of bookkeeping accuracy and adherence to legislation and regulations. There was no specific provision in the *1878 Audit Act* for the state auditor to be concerned with matters of economy or efficiency.

13. If the state auditor was confident that vouchers and transactions had been adequately checked in a department then, with the approval of the Minister of Finance, he was relieved of the need to go through them again [s.44].

Almost immediately after the Act was passed the state auditor came into conflict with the Executive over his interpretation of sections 30, 31 and 32. He believed that section 32, which stated that "No cheque for public money shall issue except upon the certificate of the Auditor-General that there is parliamentary authority for the expenditure"¹⁴, gave him the responsibility as well as the right to question the appropriateness of expenditure. The Executive was quick to take the opportunity to affirm a limited role for the state auditor by excluding him from consideration of the merits of expenditure. The Deputy Minister of Justice, Lash, made it very clear that the Executive

was satisfied that your duties and powers as Auditor General are confined to seeing that any moneys which the Government seek to expend have been voted to Her Majesty for the purpose, and that you have no right to enquire into the legal right of the government to do that for which they seek to expend the money which had been voted to them by Parliament.

The question is one of principle ... If you have the right to enquire into the legal right of the Government to do something which may appear to you to be clearly beyond their powers as a Government, then you would have an equal right, and it would be your duty, to enquire into the validity, in a legal point of view, of every act done by the Government involving the expenditure of money.

It is out of the question that any such responsibility should be cast upon you. Parliament never intended to make you the judge in the first instance of the validity of all executive acts of the Crown ... Once it were admitted that the Government had to satisfy the Auditor General, or any other person outside of Parliament, as to the legal validity of any proposed action on their part before such action could be taken, it is not difficult to imagine that the consequences might be disastrous [quoted in Henderson 1984, p.166].

The provisions of the *1878 Audit Act* proved resilient to anything but minor adjustments, standing virtually unscathed until the limited changes brought in by amendments in 1931 and 1951.

14. This duty was taken over in 1932 by the Office of the Comptroller of the Treasury.

4.3.2 Maintaining the Line: State Audit Reforms in 1931 and 1951

The principles of state audit written into the 1878 *Audit Act* dominated Canadian state audit for the next century until the audit reforms of 1977. Audit legislation in 1931¹⁵ and 1951¹⁶ modified the *duties* of the state auditor in recognition of the ballooning demands on the resources of his Office but did not modify his powers or improve his independence. The main change between 1878 and 1931 was the move away from a detailed transaction, individual voucher audit to one where the state auditor could rely on the detailed checking of departments. A significant change introduced by the 1931 legislation was the requirement that the state auditor had to lay before Parliament any concerns he may have about a department's accounts [s.50 (2)].

In substance, the 1931 and 1951 amendments to state audit made little difference to either the status or mandate of the state auditor. Indeed, there was remarkably little change in Canadian state audit from 1931 until 1977 [*Independent Review Committee* (Wilson Committee), 1975, p.19]. The concerns of the 1931 and 1951 legislation were still the traditional financial/compliance audit [1951 s.70(1)]. They both also reinforced the pivotal and powerful role of the Treasury Board and the Minister of Finance in state audit. The responsibilities of the Treasury Board under the 1951 Act were extended to include responsibility for

all matters relating to finance, revenues, estimates, expenditures and financial commitments, accounts, establishment, the terms and conditions of employment of persons in the public service" [s.5], (including the office of the state auditor).

Whereas the 1931 *Act* had allowed the state auditor to "prescribe regulations and forms for the guidance of persons concerned in making and rendering their periodical accounts for examination, provided all such rules, regulations and forms shall be

15. *An Act to Amend the Consolidated Revenue and Audit Act* [21-22 George V. Ch.27].

16. *An Act to Provide for the Financial Administration of the Government of Canada, the Audit of the Public Accounts and the Financial Control of Crown Corporations* (the *Financial Administration Act*) [15-16 George VI, Ch.12]. This Act repealed the 1931 Act.

approved by the Treasury Board" [1931 s.42(2)], the 1951 Act made this the sole responsibility of the Treasury Board [s.5(3)].

The 1951 Audit Act retained the requirement that all reports of the state auditor to Parliament still had to go through the Treasury Board [s.71]. The authority of the Treasury Board over the state auditor was further enhanced by the requirement that at regular intervals an officer of the Treasury Board, and not an independent external auditor, was to audit the Office of the Auditor General [s.75]¹⁷.

Thus when Henderson assumed office as Auditor General in 1960 he had to deal with the considerable weight of what he perceived to be moribund but nonetheless influential tradition and the intimidating authority of the Treasury Board.

4.3.3 The Henderson Years and the Fight for Reform of State Audit

Henderson had been warned that he was taking on a task for which he could expect little appreciation from either Parliament or the Executive. His predecessor, Watson Sellar, warned him that he should anticipate trouble from both the Treasury Board and the Department of Finance because "they had resented the presence of the Auditor General from time immemorial" [Henderson 1984, p.169].

Early in his term Henderson established that he was not going to be content to limit his investigations or observations to narrow interpretations of the state auditor's mandate. He gave notice that he saw considerable parallels in the work of private and public sector auditors, especially in their ability to assist in management improvement. Central to this and consistent with his relationship with Parliament, he was determined to continue the practice of state auditors for some time, relying on section 70(1) of the *1951 Act*¹⁸, and hunt out instances of 'non productive' expenditure or inefficiency¹⁹

17. Previously the Audit Office had audited its own accounts, as was the arrangement in Australia until 1979.

18. Section 70(1) required the Auditor-General to report annually to the House of Commons and to :

[Canadian Auditor General, *Comprehensive Auditing Manual* 1984, s.1.01]. It was "especially appropriate" then, noted Henderson, that greater stress needed to be placed on the positive side of audit [Henderson 1984, p.171], although he did not see it as appropriate that the state auditor become involved in the implementation of remedies for poor management control and performance. Instead, he would confine himself in this extended role to reporting and suggesting directions for improvement. To this end he proposed in his 1960 Annual Report to issue detailed reports on the management of most government agencies, including all departments and Crown Corporations. He envisaged that these management consulting type reports would go only to management and to the Minister concerned and not to either the Public Accounts Committee (PAC) or to Parliament. After being flagged in his 1960 Report to Parliament little was heard again of the proposal [Balls 1978, p.605]. It appears that Henderson's idea was far too radical because it intruded on the constitutional requirement that the Auditor General work for Parliament alone.

Henderson, coming from a long and successful career in private sector management²⁰ and consulting, was under no delusions about the task which confronted him:

I was quite aware that my value-for-money approach would be considered revolutionary among the rank and file of the civil service, Treasury, and the Ottawa establishment generally, most of whom possessed strong pre-conceived ideas as to what the Auditor General should do and how far he should go [Henderson 1984, p.173].

call attention to *every* case in which he has observed

- (a) an officer wilfully or negligently did not collect revenue
- (b) money not accounted for and paid into the Consolidated Revenue Fund
- (c) appropriations exceeded or not applied to purposes authorised by Parliament
- (d) expenditure not properly authorised or vouched
- (e) fraud

and to any other case that the Auditor-General considers should be brought to the notice of the House of Commons [Emphasis added]

19. Auditor-General Sellar in 1958 was the first to make it a regular practice of reporting on this aspect of Executive performance [*Report of the Independent Review Committee of the Auditor General*, the Wilson Committee, 1975, p.20]. Despite this innovation, he still conceived only a limited role for this function: the Auditor General had an obligation to "call attention to the facts, not to pass judgement" [quoted in Balls 1978, p.603].

20. He was the first C&AG to be a qualified chartered accountant.

Not only could he not expect the sympathy of the Executive²¹ in his determination to introduce 'comprehensive auditing' but he did not have the tools necessary to bring this into effect²². His office had little appreciation of the practice of audit in the private sector and certainly no experience with value-for-money type audits. His staff were well versed in traditional audit but little else. In addition to problems with the expertise of his staff Henderson inherited an office which had for some time been unable to attract and retain high calibre staff, [1984, p.178]. In this he was at the mercy of the Civil Service Commission which had the exclusive right to appoint audit staff and was unlikely to surrender this willingly.

Henderson's inability to employ the staff he required both in terms of quality and quantity was to prove the source of most of the disputes he was to have with the Executive. He was not given any input into the selection of staff who were made available from an eligibility list maintained and updated at regular intervals by the Civil Service Commission. From this list it appeared to Henderson that more often than not his Office was given people of inferior ability rejected by the private sector and other government departments [1984, p.181]. Once appointed to his Office the staff, especially senior staff, felt exposed to the deprecations of the Executive and were very apprehensive of the Civil Service Commission's intentions towards the state auditor's Office. It was thus apparent that, while the state auditor enjoyed considerable personal protection, this did not extend to his Office [1984, p.182].

Peremptory handling of appointments and the conditions of service of the state auditor and his office indicated the contemptuous and dismissive attitude which the Executive

21. He experienced difficulties from the start when there was a change of government soon after he assumed office.

22. At least initially, he even encountered some opposition from his private sector colleagues. In his autobiography, Henderson relates the time that a senior representative of the accounting profession in Canada warned him off performance audits in Crown corporations which had been the province of the private sector auditors. He sent a message back to the profession that he would conduct his enquiries as he thought appropriate and that he would resist strongly any attempt by the profession to interfere [p.174].

had for the state auditor. In contradiction to the purported legislated guarantees, the state auditor was not immune to Executive interference over his salary level. On one occasion, prior to Henderson's term as Auditor General, for the purpose of awarding salary increases, the Department of Finance had prepared a list of senior public servants. Next to Auditor General Watson Sellar's name the Civil Service Department had written that he was not an important official and therefore need not be considered [Henderson 1984, p.182]. Henderson took this as an indication of the treatment which he could expect from the Executive because he "would become too big a thorn in the side of the establishment"²³ [p.183].

It was apparent to Henderson that the Westminster model of state audit which Canada had loyally pursued since 1878 (and before) had little to offer for performance auditing. He therefore turned his attention south to the United States with whose audit office the Canadians "certainly had more in common than with Westminster so far as accounting and auditing standards were concerned" [Henderson 1984, p.184]. After visits to the GAO in the early sixties Henderson was determined to adopt the American approach to performance auditing as the blueprint for his office. He did recognise that not all aspects of the GAO's system of audit were appropriate to a Westminster government. Whereas the Comptroller General of the GAO could criticise government policy, the Canadian state auditor knew that his value-for-money observations would have to be limited to the financial consequences of spending; policy effectiveness was outside his mandate, as it was with the other Westminster state auditors.

23. On several occasions in the late sixties Henderson attempted to obtain a pay rise but each time was refused. To receive a pay rise over the \$30,000 he was currently receiving, according to the *Financial Administration Act* [1951] required an amendment to the Act. At one stage he was being paid less than his Deputy whose pay was tied to the pay scales in the civil service. His experiences were consistent with that of his predecessors who usually had to be content with a salary which would remain unchanged throughout their term of office, however long. In the 1931 audit legislation the salary of the state auditor was set at \$15,000 to be paid from the Consolidated Revenue Fund [s.39]. Twenty years later the 1951 legislation left the salary at this level [s.65 (2)].

From 1967 as Henderson made deeper incursions into Executive finances and management practices he experienced increasing difficulties with the Executive with "one red-tape roadblock after another ... thrown up by the administration as it sought to handicap the work of the Auditor General's office" [Henderson 1984, p.235]. Despite strong support from the PAC²⁴ the state auditor found it increasingly difficult to have his recommendations for improved efficiency implemented: "nobody, least of all the government ... , paid any attention" [Henderson 1984, p.252]. The antagonism between the Executive and the state auditor reached a climax in 1968 when the Executive decided to freeze promotions and pay levels in the state audit Office. To Henderson and his staff this meant only one thing, that the "government would now attempt to handicap the work of the audit office by attacking the only tools the Auditor General possessed, namely his staff" [Henderson 1984, p.253].

At the same time, Henderson was "enraged" by the Treasury Board's demand that he explain in detail the allocation of his Estimates over the functions of his Office. This was soon to be followed by a freezing of all vacancies: "another opportunity for pressure" [Henderson 1984, p.254]²⁵. This resulted in loud protests by the opposition and the media and relaxation of the freeze, although effectively little had changed for the Audit Office in its attempt to fill all of its positions. In the following year's report to Parliament Henderson complained that the work of his Office was "seriously" and "severely" handicapped by staff shortages²⁶. His staff were so thinly spread that he saw it as a "dangerous position because it can prejudice the effectiveness of ... (the auditor's) work". He also took the opportunity to remind the Parliament that it was anomalous that the Auditor-General should have to

24. The Canadian PAC originated with a Select Committee of the legislature of Upper Canada in 1840 which had the responsibility of examining accounts before they were sent to England for audit. By 1845 this Committee had evolved into a Committee of Public Accounts and in 1852 a Standing Committee of the House in Upper Canada [Editorial, *Canadian Chartered Accountant*, March 1965, p.181].

25. The Office had an establishment at the time of 254, with 229 positions filled.

26. At the time he had a staff of 233; he estimated that he needed between 290 and 300 to carry out his work properly [*Canadian Chartered Accountant*, March 1970, p.282].

rely for his staff needs on an agency he must examine and on which he must be free to report ... The Auditor-General and his staff must be truly independent, answering only to Parliament; they must be free from interference, improper pressure and recriminations²⁷ [*Canadian Chartered Accountant*, May 1970, p.282]²⁸.

Between 1968 and 1973 Executive pressure on the state auditor found expression in numerous petty demands for information on the running of the Office and detailed justifications for any requests for further resources. Henderson found the niggardly attitude of the Department of Finance increasingly irritating, not only for the demands it placed on his time but for the irreverent attitude it displayed on the part of Finance to the state auditor. According to Henderson, he contemplated fighting back by carrying-out a management audit on the Treasury Board which he could see had devoted a great deal of its time to "pyramiding its staff into operations that really served no useful purpose ... " [1984, p.259]. Even here the Treasury Board and the Department of Finance were able to thwart him because he had not been able to recruit staff with the necessary skills. Also, he was reluctant to ask his staff to criticise the very people who determined their futures in the public service.

Disclosures of wasteful spending in the Auditor General's Report on the financial year ended March 1970 were taken by the Executive as encroachments on policy issues, driving it openly to criticise the state auditor. On 25 March 1970 the President of the Treasury Board, Drury, informed the press that

we don't regard it as being his (the Auditor General's) responsibility to criticize the underlying policy involved in certain decisions. It is Parliament's responsibility and the government as approved by parliament for deciding on the policy. We don't think it is the Auditor General's prerogative to comment on that [quoted in Henderson 1984, p.261].

27. See also the later comments of the Canadian Comprehensive Auditing Foundation [1981, p.86].

28. See Chapter 2, section 2.5.4 for comparable comments about the Australian Auditor-General's dependence for staff on the Public Service Board and the Department of Finance.

Information received by Henderson convinced him that the Government had had about enough of his comments and that the Minister of Finance, effectively the person to whom Henderson's office was responsible, had vowed to remove him from office [1984, p.262]. The Government, however, did not have it all its own way. In Parliament on 13 April 1970 the Government was criticised for its behaviour in publicly attacking the state auditor. It was warned that this behaviour could be interpreted as an attempt to "harass and intimidate the auditor general" and to "bludgeon him into silence" [quoted in Henderson 1984, p.265]. The criticisms had little effect on the Executive. On the contrary, it appeared that the Executive's badgering would extend to a new audit act which, feared Henderson, would introduce more restrictions on the state auditor. This had not been the first time that a new act had been mooted.

4.3.4 Henderson's Final Attempts to Reform State Audit

In 1967 the PAC had prepared a draft Audit Act which, amongst other things, would have established an office for the state auditor which was outside the command of the Civil Service Commission and, therefore, beyond the direction of the Treasury Board. Despite support within the PAC for the proposed legislation the Government refused to allow it to be discussed [Henderson 1984, p.270]. Responding to public and parliamentary pressure the Government lifted its embargo on the draft of the proposed Bill which was resurrected in May 1970. During PAC hearings on state audit reform Professor Norman Ward, a political scientist, provided the most convincing support for Henderson's attempts to widen the domain of state audit. He advised the PAC that

the Auditor General really cannot be narrowly confined to a purely legalistic view of his job if he is to do his job properly. Of course he is going to make mistakes ... And he should make mistakes and aggravate the government rather than overlook things that ought to be drawn to the public's attention. It is far better that he should be free to make mistakes ... than he should be hampered so that he is afraid to make mistakes [quoted in Henderson 1984, p.271].

Over the top of testimony such as Ward's, the PAC's report on the draft legislation contradicted many of the major provisions originally envisaged for the Act when it was drafted in 1967. The Audit Office was not to be separated from the Public Service Commission, as previously envisaged, to give the state auditor greater control over his staff. More seriously, the report recommended that the duties of the state auditor be made more specific, and therefore limited, and that his obligation to report to Parliament on any matter which he desired be circumscribed. Henderson was left in no doubt that the effect of this was to reduce significantly the independence of the state auditor by reducing his access to Parliament.

With this level of support from the PAC, which once had been the Auditor General's strong ally, the Government pressed on with a previous decision to downgrade the position of 28 of the top positions in the state auditor's Office at the same time as finalising a new audit act. Public outcry was so intense at the prospect of a reduction in the rights of the state auditor that the Government was forced to backdown and withdraw the Bill [Bill C-190].

At the time of his retirement Henderson reflected that while he had failed to win his war with the political and bureaucratic establishment in Ottawa he believed that he had been able to lay the foundations for audit reform which could be pursued by his successor. The degree of antagonism experienced by Henderson resulted from both the nature of the tasks he had set himself and his private sector background. Unlike previous state auditors in Canada and those of Australia and Britain, Henderson had not been immersed in the public sector culture. As an outsider he had not built up a network of close relationships with senior public servants nor had he accumulated 'debts', which might have to be repaid, as he passed up through the public service hierarchy. More subtle forms of influence over Henderson through personal lines of friendship were therefore not as available to the Executive. There was not even the common repertoire of class beliefs as there was in England to bring Henderson's

interests into alignment with that of the public service establishment [see Garrett 1972, p.24]. On the contrary, Henderson saw that the light of salvation for the public sector would not come from the self interested elites which dominated the Executive but would come from the private sector, a concept which his successor James Macdonell, a management consultant for over 30 years and another chartered accountant, assiduously applied in his dealings with the Executive [*Canadian Chartered Accountant*, March 1965, p.182].

4.3.5 James Macdonell and the Wilson Inquiry

Forewarned by Henderson's troubled times with the Executive, Macdonell²⁹ adopted another tack to achieve the audit reforms which Henderson had fought so long to bring about. The experience Macdonell had in the private sector and Henderson's meagre successes made it obvious to Macdonell that he could not rely on any allies in the Executive in the move towards state audit reform, nor could he depend on the word of the parliamentary Opposition as demonstrated during Henderson's time. Instead, Macdonell maintained a close association with the private sector and developed the idea to an extent not previously experienced in state audit. This, more than anything, proved to be the key element in bringing the first significant reform of the Audit Office since 1878. In the face of increasing dissatisfaction in the community with the Government's performance in the early seventies it was eventually unable to resist the recommendations for reform coming from committees composed of very experienced private sector managers and accountants [CCAF 1981, p.ii].

It was obvious to Macdonell that direct confrontation had not got Henderson very far and that he would likely suffer the same fate if he took up where Henderson had left off. He indicated later that, apart from confrontation being damaging for his predecessor, he avoided it because his experience in private practice convinced him that the last thing one sought was confrontation with the client. He had found it was

29. Macdonell was Auditor-General from 1973 to 1981 when he was replaced by Ken Dye.

"almost invariably non productive or worse, counterproductive" [Macdonell 1978, p.23].

According to Macdonell, Henderson's skirmishes with the Executive had alienated them and retarded the state auditor's ability to monitor and encourage management improvement. Henderson's efforts had left Canadian state audit confused, exposed and the object of considerable controversy [Macdonell 1980, p.152]. The Wilson Committee³⁰ in 1975 observed that

it is apparent that there are many individuals, both within and outside the Government, who do not fully understand the extent of (the state auditor's) ... present responsibilities and certainly do not agree as to what they should be [p.1].

Despite Henderson's significant difficulties with the Executive, Macdonell was convinced that Henderson was on the right track and that the Canadian state auditor had fallen behind, in the scope and performance of his work, that of his counterparts [Canada, 1973, Minutes of Evidence, PAC, October 30, p.11.7]. Macdonell shared Henderson's vision that state audit should be used in a more positive manner, to assist management to bring improved use of public sector resources [Macdonell 1978, p.29]. It would be this management emphasis of audit which he realised would bring him into conflict with the Executive. After all,

it is not at all unnatural that the government of the day and the officials who serve it should regard as an adversary one who is required by law to look over the government's shoulder ... and to disclose publicly its shortcomings in controlling and managing the public purse [Macdonell 1978, p.23].

Both Macdonell and Henderson had grasped that they had taken upon themselves the mantle of state audit in times which were now very different to those over which their audit mandate had evolved. In particular, as the Lambert Commission later observed:

30. The work of this Committee is discussed later in this section.

we are dealing with a government vastly transformed from the time when the conventional view of ministerial responsibility was formulated. The twin assumptions that Parliament has the clout as well as the information to exact a relevant accounting, and that departments can be managed and directed by ministers, do not hold as they once did [quoted in Thomas 1979, p.559].

In these circumstances, by the early seventies it had become obvious that the traditional attest and compliance audits were not meeting increasingly vocal public demands that the public service ie. the Executive, be made accountable for their performance [CCAF 1981, p.ii]. As section 4.2 has noted above, Canada was not immune from the economic pressures which in the seventies assailed most countries. Canadians had become more critical and resentful of waste and mismanagement by their elected representatives. Macdonell's long association with the private sector had also imbued him with an aversion to poor performance and the need of the public sector to emulate the financial discipline of the private sector [*The Canadian Chartered Accountant*, March 1975, p.181].

In an attempt to create a clean start for him and his Office, soon after assuming office Macdonell approached the private sector to examine firstly the circumstances which had thrown the Executive and the state auditor against each other during the previous five years and to clarify the way ahead. Central to these concerns was how the independence of the state auditor could be protected within the present network of relationships and constraints in which the constitution and audit legislation had placed the Auditor General [Wilson Committee 1975,p.3]. The Committee appointed was to concern itself with the comparative responsibilities of state auditors elsewhere.

The Wilson Committee³¹, which was the first of its kind in state audit and the first step in Macdonell's efforts to reform his Office, reported in March 1975³² that they found

31. The Committee interviewed extensively, both domestically and overseas. Amongst those consulted was Don Steele Craik, the Australian Auditor-General. The Committee consisted of J. Wilson FCA.

that the main source of difficulties between the state auditor and the Executive between 1968 and 1973 was lack of agreement over what the state auditor had a right to investigate. At issue was Henderson's determination to use Section 70(1) to expose and report on instances of "non-productive" expenditure. Opponents contended that this section had nothing to add to Henderson's financial audit mandate, as had been established by Lash in 1878, and to take additional meaning was distorting the legislative intent of this provision.

In the introductory passages of the report the Wilson Committee established that it had come down decidedly on the side of Henderson and disagreed with those who would place a narrow legislative interpretation on Section 70(1) of the *Financial Administration Act*:

this ... seems inconsistent with our understanding of Parliament's intention when it appropriates funds for a particular purpose. In making such an appropriation, it surely imposes a trust on the administration not only to use the funds for the specified purposes but, as a trustee, to spend the money prudently- that is, with a view to economy and efficiency. In other words, the administration is expected to ensure that value for money will be obtained [Wilson Committee 1975, p.33].

an executive partner of a management consulting firm, M. Belanger CA, a chartered accountant, academic and adviser to governments and A. Lorne Campbell, a QC.

32. The AAO prepared a paper for internal consumption which examined each of the 48 recommendations of the Wilson Committee to determine their relevance for the AAO. Most (30 recommendations) of the Wilson Committee's recommendations were stated to be already in place in Australia. Six were thought to be worth consideration or were in the process of being considered by the joint Treasury/AAO review of the *Audit Act* which was then in progress. The remainder were listed as not applicable to Australia. Of this latter category most notable were the following recommendations:

The Office of the Auditor General should be specifically exempted from the provisions of the *Financial Administration Act* with respect to the division of appropriations into allotments.

The purpose of this recommendation was to give the Canadian Auditor General more control over the distribution of his funding throughout his Office and to reduce the intrusion of the Treasury Board. Even though the Department of Finance in Australia exercised a similar level of intervention the AAO noted next to this recommendation, "The present method of appropriating funds for the Auditor-General's Office is satisfactory". Similarly the recommendation that "The Auditor General should be a separate employer ..." was dismissed as "Not relevant in the Australian context" [*The Report of the Independent Review Committee on the Office of the Auditor General of Canada: Notes Prepared in the Office of the Auditor-General for Australia*, 1975]

The Committee, therefore, advocated extending Henderson's approach and to allow the state auditor to move into value-for-money auditing [1975, p.108]. The overarching theme of the Committee's report was the importance of seeing the state auditor as an agent for improvement. By referring to audit practice in Britain, the Committee showed that concern for the wise use of public funds had been an early concern of the state auditor and the financial committees of Parliament after 1866. They also drew on the experiences of other countries, primarily Sweden and the United States³³, to trace the rise of state audit concerns which went beyond purely accounting and legal procedures.

In order to remove any confusion in the interpretation of the state auditor's mandate, either in the Executive or with the public at large, the Committee, echoing Henderson's earlier and unsuccessful suggestion [Annual Report of the Auditor General, 1969], strongly recommended that a new, separate Act devoted exclusively to state audit be put in place. This Act would provide the state auditor with specific authority to report where value-for-money had not been obtained. The Committee's support for a broader mandate was tempered by the realities which would confront the state auditor when it came time to make major incursions using efficiency auditing. They pointed to the difficulties in developing measures of performance and the susceptibility of the efficiency auditor to stray into the area of policy effectiveness which, apart from being even harder to assess, was politically off limits to the state auditor. Value-for-money auditing, warned the Committee,

is complex and poses problems of judgement for the person making its evaluation. It encompasses three inter-related components: whether money is expended economically and efficiently and whether the program on which it is expended is effective in meeting its objectives. The first two components, economy and efficiency, are susceptible to reasonably objective definition ... [p.33].

33. Also Israel and France.

Unlike the recommendations of the contemporaneous Coombs Commission in Australia, the Wilson Committee envisaged that efficiency auditing would take place as part of the normal cycle of audits. In order to assess

whether economy and efficiency are being realized, it is not necessary for the Audit Office itself to initiate detailed studies of productivity in the various departments and agencies. Specific examples of blatant waste or obvious inefficiency in administration will become apparent from time to time through the examination of payments, as they have in the past [Wilson Committee 1975, p.34].

The Committee could see that movement of the state auditor into value-for-money auditing was fraught with additional threats to his independence and to that of his Office. To meet these dangers, an integral part of their recommendations³⁴ was the need to give the state auditor control over the recruitment and conditions of service of his staff. Under the present conditions of service, not only were members of the state auditor's Office at a great disadvantage in comparison with private sector auditors but they were also behind that of their colleagues in the major departments of State. In the case of the conditions of service of the Auditor-General, his position was particularly unsatisfactory [Wilson Committee 1975, p.111]. Thus, the detailed staffing controls of the Treasury Board and the Public Service Commission were to be replaced by the state auditor's right to: complain directly to Parliament if he considers he is not receiving sufficient resources to carry out all of his mandate; appoint outside professional assistance; be exempt from the personnel management controls of the Treasury Board with the Auditor General to be given status as the employer for his Office [p.129].

Important though the findings of the Wilson Committee were, Macdonell was apparently convinced that it would not be enough to move the Government to reform state audit. His cause would need further impetus and largely from the private sector.

34. Of the Committee's 48 recommendations it believed that over half of them could be implemented by the state auditor without any need for further legislation.

4.3.6 The Financial Management Control Study and Public Sector Accountability in Crisis

Concurrent with the Wilson Committee's review Macdonell initiated a two year study of the financial management and control systems of the Executive called the Financial Management Control Study [FMCS]. Widening the mandate of the state auditor to encompass value-for-money would only work in practice if a culture of management improvement and concern for performance evaluation was in place. From his experience as a management consultant Macdonell knew that auditing for efficiency needed a sympathetic public sector management environment where the required procedures and controls essential to achieving value for money were in place. This was something which the Australian state efficiency auditors did not have during the establishment of efficiency auditing between 1978-84 and which was at the heart of the failures of efficiency auditing as carried out by the Efficiency Auditing Division of the Australian Audit Office.

The aims of the FMCS, the first such study to be undertaken in Canada, were to:

- evaluate the adequacy of the Treasury Board guidelines for financial management and control and the extent of compliance with these guidelines throughout the public sector
- examine the organisation of the financial administration function
- examine the qualifications of financial administrators
- evaluate the adequacy of financial systems
- evaluate the quality of financial information available to Parliament and to public sector managers
- assess the nature and quality of internal audit
- determine the extent of decentralisation of decision making after the recommendations of the Glassco Commission in 1962 [Case 1976, p.56; Macdonell 1978, p.24].

Under the Executive Interchange Program Macdonell again relied on the accounting profession in the private sector to carry out the FMCS between 1974-76³⁵. He was able to obtain the assistance for two years of 20 senior partners and 20 of their senior managers from 19 national accounting firms. Along with senior staff from the Auditor-General's Office, project teams composed of one partner, one manager and audit staff were formed and assigned to a department or agency. It was expected that each team would complete two reviews in a year [Case³⁶ 1976, p.55]. Findings of the Study, in the first place, were not meant for Parliament. Rather, the findings of each review had to be discussed with senior officials of the department or agency reviewed. Altogether, 28 departments and agencies were reviewed over the life of the Study.

The Study was particularly critical of the low level of disclosure in the Estimates and the Public Accounts provided to Parliament. Not only were these deficient in their content but they were very confusing documents. Accounting and information systems available to management were found, if they existed, to be deficient and also provided little of use in the pursuit of better management [Case 1976, p.46].

The FMCS proved to be the catalyst which had long been absent in bringing about change in the Canadian public service. Most commentators agreed that the public service management reforms stemming from the recommendations of the Glassco Commission³⁷ in 1962, after a brief spurt of initial enthusiasm, had changed the public sector very little. The FMCS only served to confirm what had been said and had gone unheeded for over a decade. Planning Programming Budgeting (PPB) had made a brief but unwelcome appearance in the sixties only to meet a merciful demise after a short and neglected life. Despite the high hopes for change in the culture and the aims of the

35. The leader of the study was Robert Dale-Harris, head of Coopers and Lybrand in Toronto.

36. Case was a member of one of the teams over the two years of the study.

37. The Royal Commission was announced in 1960, the same year Henderson became Auditor General.

public sector, without the enthusiastic and, more importantly, sustained support of senior ministers and the Treasury Board attempts at reform were unlikely to be successful. Reform to the extent and penetration advocated by the Glassco Commission could not be left to individual "in-house" efforts: it could only be successful with well developed service-wide initiatives [Hodgets 1980, p.3], something which the British were also to discover.

The findings of the FMCS convinced Macdonell that not only had there been little improvement in public sector management information and control systems since Glassco but in too many instances accountability and performance had deteriorated. At the centre of the Glassco recommendations had been a desire to see a public service bureaucracy accountable for their management performance ie. how efficiently and effectively they used the resources entrusted to them by Parliament. To accomplish this the Glassco Commissioners advocated that more authority and, inescapably, heightened responsibility to make decisions should be devolved from the central coordinating departments (the Treasury Board and the Civil Service Commission) to departmental managers [CCAF 1987, p.42]. It was from the Glassco Commission that the phrase "let the managers manage" was first heard. Unfortunately, the concomitant calls of "make the managers manage" and cause them to be accountable went unheeded:

departments should ... be fully accountable for the organisation and execution of their programs and enjoy power commensurate with their accountability [Report of the Glassco Commission, p.51].

Some authority had been delegated but in isolation from stronger review mechanisms. The result of the incomplete initiatives following the Glassco Commission was, according to its successor the Lambert Commission,

a public service that has been overlaid by an accretion of specific poultices that reflects the intensive pursuit, over the last decade, of

managerial modifications. It is not our impression that such poulticing has necessarily reduced swelling or inflammation in the patient. Indeed, the patient appears to have suffered from a surfeit of specialists ... [Lambert Commission, 1977, p.4].

To the Auditor-General, the situation had reached crisis level by early 1976 when he reviewed progress on the findings of the FMCS. Macdonell indicated in his now famous 1976 Report that some officials had failed to grasp the seriousness of the situation. He therefore warned that "Parliament and indeed the Government itself -has lost, or is close to losing effective control of the public purse". Macdonell recommended that to rectify the parlous situation the Government appoint a new officer called the Comptroller General of Canada and appoint a senior financial officer in each department [Macdonell 1978, p.24]. Widespread strong reaction to the 1976 Report left the government with little choice but to take seriously the Auditor-General's concerns and appoint a royal commission to investigate the complaints. At the same time the Government appointed a Comptroller General³⁸.

4.3.7 The Royal Commission on Financial Management and Accountability and the Auditor-General Act of 1977

The *Royal Commission on Financial Management and Accountability* [Lambert Commission] was appointed in November 1976, one month after the Coombs Commission in Australia reported. It was not the task of the Commission to go over the same ground as the Glassco Commission. The two Royal Commissions in Canada had very different emphases: whereas the Glassco Commission had been concerned with the means to improve financial management, the Lambert Commission was to direct its enquiries primarily towards the nexus between financial management and accountability to Parliament³⁹.

38. The first Comptroller General was H. Rodgers, former vice President of Rank Xerox.

39. For details of the Glassco recommendations see the *Royal Commission on Financial Management and Accountability*, Progress Report, November 1977, pp.19-20.

The terms of reference for the Commission firstly gave recognition to the factors which had brought it into being⁴⁰ and the determination of the Government to pursue "vigorously ... all opportunities to make savings, avoid waste and increase productivity". The Commissioners were therefore directed to examine systems of financial management and control, the accountability and performance of deputy Ministers and heads of Crown corporations.

The Lambert Commission was highly critical of the deterioration which had occurred in accountability subsequent to the changes which followed the Glassco recommendations. The Commissioners indicated that lines of accountability had become confused with the result that

few senior officials in departments and agencies ... are given clear understanding of what is expected of them, and hence they are obliged largely to determine themselves what they are accountable for. Little assistance is given to performance evaluation of these officers [*Lambert Report* 1977, p.5].

The findings of the Commission added further weight to the Auditor General's earlier warnings by recommending that accountability be tightened throughout the Executive and that formal procedures be established which would ensure that goals would be set and upon which responsibility for achievements would be assigned [*Lambert Report* p.8].

Soon after the Wilson Committee reported discussions began with the Treasury Board for a new audit act which would explicitly provide for value-for-money auditing to be within the province of the state auditor. Concerned that he may be required to engage in full scale value-for-money auditing without the necessary expertise in his Office or

40. In the Terms of Reference it was also stated that the inquiry was brought about by the increasing pressures on the government which had placed "unprecedented demands upon the structure, organization and process of administrative management and control in the Government". The concerns of the Auditor-General were also recognised.

experience, Macdonell decided to commence a number of pilot studies to prepare his Office for this "relatively uncharted field" [Macdonell 1978, p.27]. Following the successful formula used with the Wilson Committee, Macdonell sought the assistance of a management consulting firm, K. Belbeck, to carry out the Study of Procedures in Cost Effectiveness [SPICE]. The purpose of the Study was

to ascertain whether there were appropriate systems for measuring and reporting performance and in evaluating program effectiveness and whether they were operating satisfactorily [Macdonell 1980, p.155].

Work began on the Study in September 1976 with three pilot projects, two months before the *Auditor-General Act* was introduced in Parliament. In January 1977 after the pilot studies were completed a multidisciplinary team of 60⁴¹ was assembled. They were divided into 14 teams responsible for 14 separate Executive programs, which had the specific aims of developing methodologies for value-for-money audits, suggest criteria for assessing efficiency and effectiveness and identifying any general weaknesses throughout government in management control [Robinson 1978, p.95]. On the basis of the Study's findings Macdonell concluded that "there is, in my opinion, widespread lack of due regard for economy and efficiency ... and inadequate attention to determining whether programs ... are accomplishing what Parliament intended ... [Macdonell 1980, p.156]. Particularly significant for the future direction of value-for-money auditing were the findings that: the Auditor General would need to develop his own team of value-for-money methodology specialists; value-for-money audits should be integrated with traditional financial audits and there must be a multidisciplinary approach [Robinson 1978, p.101].

41. Over 50 of the team were partners and managers from private sector accounting and management consulting firms.

While SPICE was in progress the Government enacted the *Auditor General Act*⁴² [25-26 Elizabeth II. ch.34] in July 1977. The CCAF referred to the Act as establishing the Auditor General "as an independent officer of Parliament" thereby giving clearer recognition to the principles of parliamentary control and the independent audit of government [1984a, s.1.04]. The Act prescribed that no longer could just anyone be appointed as state auditor; they must be a qualified auditor [s.3(1)]. This in itself was a revolutionary change, not subsequently taken-up by either Britain or Australia. For the first time in Canadian state audit legislation recognition was given to the importance of technical expertise as a qualification for the state auditor over the British derived belief that knowledge of the workings of the Executive was most important.

The Act's most important changes were recognition of concerns about the auditor's independence and mandate which had become more urgent in the previous two decades and the need to reduce Treasury Board influence over state audit. Section 7 of the Act placed upon the state auditor the responsibility to continue the traditional compliance and attest audits but also unambiguously required that the Auditor General call to Parliament's attention any cases where

- (d) money has been expended without due regard to economy or efficiency or;
- (e) satisfactory procedures have not been established to measure and report the effectiveness of programs.

The Auditor General was also given the freedom to make whichever inquiries he thought necessary [s.5] and to make a special report outside the annual report of any findings which he considers of "pressing importance or urgency" [s.8(1)]. He could also accept requests from the Executive to conduct inquiries, as long as they did not interfere with his primary responsibilities [s.11]. On the basis of his findings the Auditor General was now permitted to advise auditees on improvements, with the

42. *An Act respecting the office of the Auditor General of Canada and matters related or incidental thereto*. For details of discussions during passage of the *Auditor General Bill* [Bill C-20] see HC debates: Majankowski, 29 June 1977, p.7202; Andras, 25 April 1977, p.4947.

Treasury Board singled-out for mention [s.12]. No longer did the reports of the Auditor General have to go firstly through the Treasury Board but could be laid before Parliament by the Speaker of the House [s.7(3)].

The Act left the Auditor General's staff within the Public Service Employment Act⁴³ but gave him the power to exercise control over virtually all aspects of the staffing of his Office, including classifications and terms and conditions of employment [s.16, 18]. For this purpose he was delegated the powers and functions of the Public Service Commission [s.15(3)] and those of the Treasury Board [s.16]. Notwithstanding these powers, some ambiguity still persisted in the Act over the number of appointments to the Auditor General's Office. The Act stipulated that *sufficient staff* were to be appointed to ensure that the Auditor General could carry out his duties but only in accordance with the Public Service Employment Act [s.15(1)]. He was therefore not given categorical assurances that he would always have the staff he needed [see comments of the CCAF 1981, p.76-77].

A considerable amount of protection was afforded the Auditor General by allowing him to present separate estimates for his Office to Parliament each year and to indicate when he thought that the amounts allowed him in the Estimates were insufficient to fulfil his responsibilities [s.20(2)]. An important change, for which Henderson had vigorously campaigned as a result of the hectoring he had experienced, was removal of the need for the Auditor General to account to the Treasury Board for the distribution of his resources [s.21]. He was now free to use them as he saw necessary, including the employment of outside services [s.15(2)].

Taken together, the staffing and resource clauses of the Act, by moving the Auditor General from Treasury Board control for the first time, gave state audit the

43. This seemed to recognise the concerns of the audit staff that they did not want to be detached from the public service and thereby be precluded from promotional opportunities available in the wider public service.

opportunity of achieving *substantive independence*. According to Sutherland [1991] they also encouraged the Auditor General later to inflate his own importance and knowingly overstep the boundary between audit and politics.

The changes introduced by the 1977 Act transformed state audit from being a reluctant subordinate of the Treasury Board to being a strong and independent officer of Parliament. No longer would the state auditor need to look to the Executive's central financial departments for approval or financial assistance. The reforms established Canadian state audit as the pace setter in Westminster state audit. They also illuminated the considerable shortfall between professions of independence for state audit and the day-to-day reality for the auditors.

4.3.8 The Achievement of Comprehensive Auditing

By the time Macdonell had reported the findings of SPICE in his 1978 Report he had commenced the integration of all related audit activities ie. traditional financial audit and performance audits, as part of what he called a comprehensive auditing⁴⁴ approach [Macdonell 1978, p.28-29]. At the heart of this approach was an expectation that each agency would be 'comprehensively' audited over a cycle of five years. It was also expected that the audits would be driven by a spirit of *constructive assistance* to agency management. No longer would the auditor stand back and point out only underlying weaknesses but would also make suggestions for improvement which the auditor expected to be implemented [Macdonell 1980, p.159]. The audits would continue development of the systems based methods and would, when necessary, call upon assistance from the private sector.

To describe the content of a comprehensive audit Macdonell's Office developed the acronym FRAME:

44. Macdonell was not the first to use the expression to describe audit which encompassed financial and performance type audits. For a definition of comprehensive auditing see CCAF 1981, p.59.

- F- Financial controls. There would be an evaluation of the controls over revenues, expenditures, assets and liabilities, the organisation of the financial function, the suitability of financial personnel, the appropriateness of accounting and financial systems.
- R- Report to Parliament. An evaluation of the financial reports sent to Parliament by departments and agencies.
- A- Attest and Authority. An expression of an opinion on the accounting accuracy of financial statements and verification of parliamentary and executive authority for expenditures.
- M- Management Controls. Evaluation of systems of management information and controls, including internal audit, performance review functions to ensure attention is directed to economy, efficiency and procedures to report on the effectiveness of programs.
- E- Electronic Data Processing [EDP]. Evaluation of the adequacy and performance of EDP [Macdonell 1980, p.158-59].

Comprehensive auditing was not concerned with management decisions per se but rather with the processes which informed the decisions. The focus was to be on management planning and control *systems* and the ability of these to produce decisions which resulted in efficient and effective use of resources in operations.

Endorsement by the PAC in 1979 of the new form of audit was the first step in its successful implementation [PAC Second Report, 23 March 1979]. Despite the PAC's acceptance and public support for mechanisms which would improve accountability and control [CCAF 1985, Introduction; Allard 1981, p.38] and the state auditor's earlier experience with limited observations on "non-productive" expenditure, all parties concerned with comprehensive auditing were under no illusions about the difficulties which would have to be faced, both in terms of practical day-to-day acceptance by the Executive and its agencies and the working-out of the relatively

new, unproven techniques involved [for example see CCAF 1981, p.60]. There was little assistance to be garnered from the experiences of other Westminster democracies. As illustrated in this chapter and the next, both Britain and Australia in 1979 were still at the threshold of comprehensive auditing.

Two major difficulties confronted those engaged in comprehensive audits: an absence of stated objectives for most agencies against which performance could be assessed and auditor inexperience. The Auditor General later commented how

the fundamentals that we take for granted in the ... (traditional) audit environment were lacking ... (Firstly) auditors had to establish criteria against which performance of agencies could be audited. Then carry out audits and develop methodology ... [CCAF 1987, p.136]⁴⁵.

Introduction of comprehensive auditing, indicated the Auditor General, would be slow,

evolutionary and iterative. Evolutionary in the sense that we would develop greater precision and order to our work as we learn rather than trying to anticipate all of the solutions in advance [CCAF 1987, p.136]⁴⁶.

It was therefore apparent that any learning would primarily have to take place jointly with provincial Auditors General, who had also moved to value-for-money audits, and the central auditor⁴⁷. To assist in sharing experiences, Macdonell and ten provincial Auditors General established a Comprehensive Auditing Coordinating Committee in December 1978. This later led to the formation of the Canadian Comprehensive Auditing Foundation (CCAF) in February 1980 in Ottawa.

The aims of the Foundation were to facilitate the collection and dissemination of comprehensive auditing knowledge, including the experiences of the private sector. In

45. This was also of concern to the Lambert Commission [1977, p.24].

46. Learning by doing, with experience gained fed back into the audit process as part of a systematic review process after each cycle of comprehensive audits coincided with the methods developed by the efficiency auditors in Australia [see chapter 6].

47. See Chorlton and Mills [1985] for an account of their experiences with Ontario Hydro.

this way the Foundation would seek to foster the development of comprehensive auditing methodology, organise training and development programs and publish to the profession [Annual Report of the Auditor-General of Canada, July 1980, p.16; CCAF 1984]. The Foundation thus was able to contribute to an environment in which comprehensive audit could be nurtured, where lessons learnt could benefit others and where a broad base of support, which would encompass both the private sector and government, for the aims of comprehensive auditing could be established. In other words, the state auditor would not stand alone in his endeavours to establish his broader mandate. This was very different to the position both in Australia and Britain where state audit operated almost as a closed shop, apprehensive of close involvement with anyone outside the audit office lest in some way it should rebound unseen on the auditor's independence.

4.3.9 Conclusion

Section 4.3 has demonstrated that substantive independence was given to Canadian state audit only after a protracted and at times venomous struggle between the state auditor and the Executive in the decade leading up to the *1977 Auditor General Act*. Eventually economic problems which called into question the utility of traditional Westminster principles of accountability and strong support from the private sector accounting profession precipitated reform. The new *Audit Act* in 1977 removed state audit from Executive financial control and provided the exemplar for reform in Britain and Australia.

Section 4.4 below follows the path to reform in British state audit. The British reforms are important because they add additional emphasis to the general direction of state audit development in Westminster democracies in the seventies. As with the study of Canadian reform, the emphasis is on the reluctance of the Executive to surrender willingly its controls over state audit. This next section also highlights the prominent part played by economic pressures and the Thatcher government's determination to

turn the British civil service away from the restrictive paradigms which had bound it for so long. The Conservative Government believed that resurrecting a prostrate economy and reviving national spirits had to be predicated on a civil service culture which valued first and foremost the efficient and effective delivery of programs. State audit became caught up in the momentum for major reform; to deny state audit similar treatment would have been inconsistent with the new approach.

4.4 AUDIT REFORM IN GREAT BRITAIN: THE FINAL STEPS TOWARDS SUBSTANTIVE INDEPENDENCE

4.4.1 *The Extended Prelude to Reform and the Coming of Mrs. Thatcher*

Almost as if the effort to reform state audit in 1866 was too much, very little subsequently changed in British state audit until the passing of the *National Audit Act* in 1983 [1983, chapter 44]⁴⁸. As in the case of Canada, there was a very long gestation period between state audit reforms. During this period developments in state audit were generally sporadic, uneven in their impact on the responsibilities of the state auditor and, apart from the last few years leading up to the 1983 Act, had little effect on the type of audit conducted by the state auditor or the conditional independence of his office. It was only in the 1960's and 1970's that murmuring against the *1866 Audit Act* started to be heard, most notably in Normanton's⁴⁹ controversial comparative study of European state audit in 1966. In the meantime, the *1866 Audit Act* continued to be widely regarded as more than adequate to cope with the demands of the 20th century [Henley 1989, p.250].

The only alterations to state audit of any note in the interregnum were the amendments contained in the *1921 Audit Act* [*An Act to Amend the Exchequer and Audit Departments Acts 1866 and 1889*, 11&12 Geo.5. ch.52]. The most notable features of this Act were the abolition of the position of Assistant Auditor General [s.8(4)], something which William Anderson had advocated in the debate prior to the passing of the *1866 Audit Act*, and relaxation of the requirement contained in s.27 of the original *1866 Audit Act* that the C&AG conduct a detailed audit of all vouchers [s.1(1)]⁵⁰. The

48. The full title of the Act was *An Act to strengthen Parliamentary control and supervision of expenditure of public money by making new provision for the appointment and status of the Comptroller and Auditor General, establishing a Public Accounts Commission and a National Audit Office and making new provision for promoting economy, efficiency and effectiveness in the use of such money by government departments and other authorities and bodies; to amend or repeal certain provisions of the Exchequer and Audit Departments Acts 1866 and 1921; and for connected purposes*.

49. Normanton was an auditor with the United Nations in Europe. During the struggles for state audit reform in the seventies, Normanton's book was taken by state auditors as both a vindication of their concerns for issues wider than financial regularity and legality and as support for their moves to formalise in legislation this extended mandate.

50. The tremendous demands which the Great War had placed on the Comptroller and Auditor General had produced a vast backlog of unaudited documents, transactions and accounts which had made this modification an inescapable necessity if the state auditors were ever to catch up.

ever present Treasury, however, should it consider it necessary could direct the C&AG to examine the vouchers in detail and not rely on the checks of a department's own bookkeeping staff [s.1(2)]. This was to be the precursor to audits more concerned with systems of control and accountability than solely with the raw transaction inputs to those systems. The Act made no attempt to alter the conditions affecting the independence of the Comptroller and Auditor General's Office, especially the level of deference expected of the C&AG towards the directions and authority of the Treasury [see for example sections 1(3), 3(1), 6, 8(2), 9; Great Britain, 1982, "Third Report from the Treasury and Civil Service Committee", *BPP*, p.xxx].

Not until the seventies did the role and status of the state auditor become a pressing issue of concern. This coincided with a worsening British economy, particularly after 1974 with the world crisis caused by the rapid rise in oil prices. This had been preceded by a rapid growth in public sector spending caused by an intensification of the state's role⁵¹. This enhanced role of the state was an outcome of Labour political ideologies and the growing expectations of a more affluent society [Harrison 1989, p.87]. With a heightened and concerned social presence being the mark of Labour economic and social policies it was not expected that the Government would attempt to resist new demands on the state [Wright 1977, p.152].

By the mid seventies these recent accretions to the level of state intervention were no longer financially sustainable. Attempting to rein in government spending and thereby reduce taxation, however, was to prove a challenge which the electors were not prepared to entrust to Labour and instead brought in Mrs. Thatcher and the Conservative Party in May 1979. Mrs. Thatcher had made it clear in her policies that once in power her immediate and long term aims were to reduce government spending. This would be accomplished using two main strategies: divest the state of those operations of government which could be taken over by the private sector and in those

51. Between 1960 and 1976 expenditure rose from 41.1% of GNP to 58.5% [Wright 1977, p.146].

areas where privatisation was not feasible, either economically or politically, work towards improving the performance of public sector administrators [Metcalf and Richards 1987, pp.1,24]. Mrs. Thatcher was determined to see that the public received better value for their money and that the public sector would be rolled back [Flynn et al 1988, p.35].

The Conservatives knew that their attempts to improve the quality of public sector performance followed a number of earlier initiatives which had eventually died out after short and unspectacular lives. If their attempts at resuscitating the economy were to stand a chance of success they realised that the first requirement would be overcoming the usual scepticism of the civil service and its 'disbelief system'. Metcalf and Richards [1987, pp.18-19] have characterised the 'disbelief system' as the major impediment to reform with which neither Plowden [1959]⁵² nor Fulton [1968]⁵³ were able to deal. They argue that this 'disbelief system' derives from a long held perception that any changes to the civil service would be only minor and cosmetic, designed to serve ends which owed more to political expediency than visions of a better civil service. As a result, the history of the civil service is strewn with short lived reform attempts which withered because they were not the result of a long term perspective⁵⁴. It was difficult for the civil service to take seriously political encouragement for a strategic approach to their work when most of their day was spent in responding to short term political crises.

52. Great Britain, 1959, "Seventh Special Report from the Select Committee on Estimates", *BPP*, 227 of 1958-59.

53. Great Britain, 1968, "Report of the Committee on the Civil Service", *BPP*, Cmnd. 3638.

54. The major inquiries in the preceding 100 years were: Trevelyan-Northcote 1854; Playfair 1874-75; Ridley 1886-90, which was concerned with the economic operation of departments; MacDonnell Commission 1912-15, which focussed on appointment, promotion and the competitive examination system; Haldane 1918, which directed its attentions to how the functions of government should be distributed amongst departments; Tomlin Commission 1929-31, which investigated Treasury control and conditions in the public service; Priestly Commission 1953-55, also concerned with conditions of service [Wittenhall 1978, p.15].

4.4.2 The Fulton Committee and the Failure of Broad Scope Public Sector Reform

It was the Fulton Committee⁵⁵ in 1968 which had held out the best chance of civil service reform since the Second World War and against which the Thatcher management reforms would be most compared. Central to the recommendations of the Fulton Committee was the need to change radically the structure of the British civil service which, in terms of organisation and recruitment policies, had altered little since the reforms which followed the Trevelyan-Northcote Report delivered during the Crimean War in 1854⁵⁶ [Chester 1968, p.295]. Whereas British society had been transformed in the intervening century this had not been matched by changes in the civil service. According to Metcalfe and Richards [1987]

conventional forms of public organization are ill equipped to deal with the problems facing them, innovation in public administration has not kept pace with the increasing scale, scope and complexity of modern government [p.3].

The Fulton Committee was particularly condemnatory of the stratification of the service into various classes and the accompanying impediments to advancement for people other than those with generalist university qualifications. They wanted a unified civil service structure with greater emphasis on setting performance goals and evaluating performance against these goals. Civil servants were to be encouraged to see themselves as managers. While the Wilson Government could accommodate structural change they steadfastly refused to consider changes to the traditional role of senior civil servants. They expected that civil servants would

remain the confidential advisers of Ministers, who alone are answerable to Parliament for policy; and we do not envisage any change in this fundamental feature of our parliamentary system of democracy [Wilson quoted in Metcalfe and Richards 1987, p.44]

55. The Committee was named after its chairman who was Vice Chancellor of the University of Sussex. The Fulton Inquiry had been prompted by concerns about public service management expressed in the Sixth Report from the Estimates Committee, "Recruitment in the Civil Service", in 1965.

56. "Report on the Organisation of the Permanent Civil Service", *BPP*, Vol.XXVII.

To achieve the vision which the Fulton Committee propounded meant more than just a change in management techniques; it would need the implementation of a completely new culture in the civil service. Thus, resistance or indifference was met at all levels. Occupants of lower level positions, who held the expectation that seniority criteria would see them eventually move ever upward, could not be expected to give enthusiastic support to a system which promised to introduce advancement on the basis of ability. Higher levels in the administration were also averse to changes which would take them from the rarefied atmosphere of policy adviser down to that of manager. As noted earlier [section 4.2.2], senior civil servants saw their primary responsibility to serve their Minister by keeping him/her sufficiently informed to satisfy Parliament, protect them at all costs and to provide policy advice. Concern for the management of the department which sprawled below the Secretaries was deemed to be beneath their abilities. The skills found in departments reflected this political preoccupation of senior civil servants. Departments, therefore, were not organised or equipped to take on a management role [Harrison 1989, pp.150-51]. Financial controls and administrative skills were meant to meet the narrow fiduciary concerns of the constitution; they were not geared towards management improvement [Harrison 1989, p.171].

Primarily because of lacklustre support from the Government the hesitant changes which followed Fulton did not develop beyond some marginal modifications in departmental practices. There was little change in the structure of the civil service and little impact on the roles performed by and expectations placed upon civil servants. It was in most instances 'business as usual'. At the time of the Fulton Committee the Government also experimented with Program Planning and Budgeting Systems [PPBS], which extended government planning horizons beyond the customary 12 months.

Attempts at introducing PPBS in the sixties signalled a series of public management initiatives centred on rational decision making techniques. PPBS was a service wide reform aimed at integrating the budgeting and planning conducted throughout the public sector and thereby improving coordination and control. Despite the great expectations which accompanied its borrowing from America, PPBS proved only of limited success and it wasn't long before PPBS ran into the same trouble as it did later in America⁵⁷. In Britain the problems of PPBS stemmed from its implementation in a form which did not recognise sufficiently the complications and interdependencies which characterised the British public sector. Also, PPBS was too broad in approach and insufficiently tailored to specific departmental needs [Jenkins and Gray 1987, p.6].

Publication in 1970 of the Heath Government's White Paper, *The Reorganisation of Central Government* [Cmnd.4506], provided a further blue-print for change. Most remembered from the Heath public sector management initiatives of the seventies is Program Analysis and Review [PAR]. PAR was aimed at improving the central government's ability to coordinate and control and to assist Ministers in the management of their departments. Whereas PPBS had been concerned with the government's budget time frame and explication of outyear costs of budget programs, PAR was aimed at the consideration of objectives and the evaluation and review of individual departmental programs [Jenkins and Gray 1987, p.5]. To meet these objectives PAR was conducted principally within departments under the watchful eye of the central coordinating departments, mainly the Cabinet Office Central Policy Review Staff. It was envisaged that about 12 departmental programs would be selected each year for review by a committee of Ministers, Treasury officials and the Department concerned.

57. Tomkins [1987] believes that PPBS failed in Britain mainly because it was based on unrealistic political, analytical and social assumptions [pp.24-25].

After an initial flurry of activity PAR provided some success but within a few years it began to lose momentum or, as one public servant referred to it, "it was run into the sand" [Bancroft 1981, as quoted in Gray and Jenkins 1986b, p.1]. The economic problems of the seventies all but finished off PAR⁵⁸ after neither the results nor the subjects of the reviews were made public [Great Britain, 1982, "Third Report of the Treasury and Civil Service Committee", p.xxiv].

The deepening economic plight of Britain after 1975 gave greater urgency to concern for the performance of the public sector and the role of the Treasury in promoting efficiency and effectiveness. More than one parliamentary committee directed their critical attention to the seeming inability of the Treasury to improve matters. The Select Committee on Expenditure in 1975 noted that

the Treasury's present methods of controlling public expenditure are inadequate in the sense that money can be spent on a scale which was not contemplated when the relevant policies were decided upon [quoted in Wright 1977, p.143].

In addition, it was very difficult for interested parties to find out what the departments had achieved or what they had hoped to achieve ie. their objectives [see the "Third Report of the Treasury and Civil Service Committee", 1982, p.xix]. There was neither the information nor the procedures in place to assess whether public sector agencies were using their resources efficiently and effectively [Harrison 1989, p.146]. It was "clear" to the Select Committee on Procedure in 1978 that "the present financial procedures of the House are inadequate for exercising control over public expenditure and ensuring that money is effectively spent" [First Report, 1977-78, Vol.I, p.xlvii].

58. Jenkins and Gray attribute the failure of PAR and PPBS to technical, organisational and political constraints. Often the necessary information to carry out the planning and evaluation of policy was scarce or non existent, skilled personnel often not available, departments and central organisations were not well structured for these new demands and departmental and party politics provided few incentives [1987, p.6]. Wearied and sceptical public servants who had lived through other reforms were not sufficiently convinced that the changes were anything other than superficial or had the full support of the Executive. Thus, when ministerial interest waned it was easy for departmental interest also to drop. For more on PAR see Gray and Jenkins 1985, pp.105-113.

These concerns were supported by the Select Committee on Expenditure which sought an "ideal" system of public sector accounting which would meet traditional financial stewardship needs and provide information on the efficiency and effectiveness of management. Information on the latter two aspects of management, they found, "barely" existed for the public sector [Fourteenth Report, 1977-78, para.21].

The Conservatives came to power in 1979 with a distrust for the management skills of the bureaucracy and a belief that public services could be provided at less cost [Harrison 1989, p.144]. They were determined to place the salvation of the public sector in the hands of private sector management philosophies and techniques, notably those of management accounting [Tomkins 1987, p.64; Helseltine 1980 in Pollitt 1986, p.159]⁵⁹. Unlike the reform attempts over the previous decade, the reforms of the eighties were to prove very robust and successful in achieving their aims, primarily because of strong political backing derived from a determination that this time the reforms must succeed.

4.4.3 Economic Ills and The Conservative Cure: Making Management Accountable

4.4.3.1 The Rayner Scrutinies

One of the earliest initiatives of the Conservatives was Sir Derek Rayner's⁶⁰ 'scrutinies' as part of the Efficiency Strategy. The aim of the scrutinies was "a radical self examination of a specific policy, activity or function" to enable identification of ways the work could be carried out more efficiently and effectively and at less cost" [PAC, 1985-86, para.1].

Each scrutiny was to be conducted by departments, not central agencies, with the assistance of a small team from Rayner's Scrutiny Unit. The scrutinies were planned to

59. The information system developed for Michael Heseltine in the Department of the Environment in the early seventies, usually referred to as MINIS or Ministerial Information System, provided a model for other departments. MINIS sought to bring Ministers into the management structure of their department and to give them more information on what was happening [see Harrison 1989, p.154].

60. Rayner was a director of Marks and Spencers.

take 60 to 90 days to complete, the final recommendations staying within the department and communicated to the relevant Minister. Between 1979-83 155 scrutinies were conducted in four departments. The scrutinies were bottom-up approaches to improvement, unlike PAR and PPBS which were run from the centre. Also unlike PPBS and PAR, the scrutinies did not attempt to generate a 'grand scheme' for improvement. Instead, they sought to generate quickly small scale improvements in areas which had been identified by the departments [Metcalf and Richards 1987, p.7]. Rayner believed reform would be successful if it was marginal, incremental and internally generated, not foisted on departments from outside agencies as part of some meta scheme. A review of the process in 1986 by the C&AG agreed that considerable savings, estimated to be 950L. million, had resulted from the scrutinies, although these were much less than those originally identified by the scrutiny teams [PAC, 1986-87, para.6, 10]. Sir Robyn Ibbs, Rayner's successor, did not envisage that the scrutinies would be a permanent fixture of government. Rather, they would cease when public sector managers became like their private sector counterparts and believed

that getting the most from the available resources, from delivering value for money, doing the right thing by the customer, is the one thing which keeps them in business ... and anything which can help (this) they will spring to [PAC, Minutes of Evidence, Q.2148, 1985-86].

Two factors were crucial to the success of the scrutinies: Sir Derek Rayner's close friendship with the Prime Minister and his high standing in the public sector as a result of a long and successful association. The Prime Minister's enthusiasm for the scrutinies left civil servants with little choice but to take them seriously. Metcalf and Richards, in their insightful study of the early Thatcher civil service reforms, caution that political clout has never been enough for successful reform. It may get the process started and help maintain the necessary momentum but it cannot guarantee success in the face of a culture entrenched and antithetical to management reform. Winning the attention of those at the top is

only the first stage of implementation. Later stages depend on the capabilities and commitment of civil servants at several levels. ... As so often happens, cultural lag means that the ruling ideas appropriate to an earlier age persist and continue to exert an influence on administrative behaviour and organizational structure long after the conditions in which they developed have disappeared [Metcalf and Richards 1987, pp.15-16].

While the Rayner scrutinies were good reminders to the civil service of the need to perform they could not constitute the means to generate service-wide change. For this the Thatcher Government turned to the Financial Management Initiative (FMI).

4.4.3.2 The Financial Management Initiative

After four years of scrutinies the Government embarked on the Financial Management Initiative [FMI] in May 1982. The program was directed by the Financial Management Unit in the Treasury and the Management and Personnel Office of the Cabinet Office. As a prelude to the FMI, the Government called upon departments to establish

where practicable, performance indicators and output measures ... which can be used to assess success in achievement of objectives. This is no less important than the accurate attribution and monitoring of costs; the questions departments will address is (sic) where is the money going and what are we getting for it [Great Britain, 1982, Government White Paper, Cmnd 8616].

FMI differed from the Rayner scrutinies not so much in aims but in the time horizon over which those aims would be achieved. Whereas the scrutinies were quick, hard-hitting, get-the-runs-on-the-board efforts the FMI had a long term orientation aimed at getting departments to improve operations, not mainly identify problem areas [see Metcalf and Richards 1987, p.187]. FMI would attempt to force a wider change in attitudes in the public service. Managers would be expected to develop a clear view of their objectives and the ability to measure performance against these objectives [Tomkins 1987, p.29]. Responsibilities for performance would be clearly designated, authority devolved to line managers throughout agencies and information systems would be developed which would enable management to meet these aims [Gray and

Jenkins 1986a, p.173]. It has generally been agreed that the FMI has led to noticeable changes in the culture of the British public service but maybe emphasising efficiency, primarily as measured inputs, has been at the expense of effectiveness and traditional public sector values such as equity and probity [Gray and Jenkins 1986a, p.182; Flynn 1988, p.35]⁶¹.

Section 4.4.3 has shown that throughout the seventies and early eighties successive governments were aware of the need to bring in changes to improve the performance of the public service. Many of these were more like experiments rather than long term strategies. The Thatcher reforms were, however, very different. Thus, by the time attention turned to the role which the state auditor could play in bringing about a more efficient public sector the outmoded administrative paradigm was under retreat.

4.4.4 Improved Management Accountability and Dissatisfaction with State Audit

State audit reform in Britain, as in Canada, followed rather than preempted sympathetic and essential management reforms. Unlike Australia, the British state auditor was not sent out to do battle with poor civil service management ahead of supportive management reforms. Rather state audit reform⁶² was only one plank, and one squeezed in at the last minute at that, in a raft of public sector reforms upon which the Conservative Government embarked in 1979. State audit reform was embraced reluctantly by a Government which preferred accountability to be exercised more discretely through reports to management and the relevant Minister, as with the Rayner scrutinies, rather than announced with fanfares to Parliament.

61. This view is by no means unanimous. Harrison, for example sees little difference in public service culture between 1979 and 1989 [1989, p.157].

62. Commentators are not all agreed that the audit reforms brought any marked improvement in audit. Harrison, writing in 1989 [p.249], believed that the NAO was more effective than the E&AD while Glynn [1987b] has been critical of the NAO's insipid reports which, he argues, rarely come down with strong recommendations.

Warnings in the late seventies of unsatisfactory management practices in the public sector had two key aspects: criticism of an absence of objectives and inadequate accountability for performance. As the most important constitutional element in making the Executive financially accountable to Parliament the role and status of the state auditor therefore became the subject of several Parliamentary inquiries⁶³ and the focus of attention in Parliament. John Garrett reminded Parliament how

over the past 100 years Honourable Members have eulogised our system of state audit ... It does a very useful job within its limitations, but *these limitations are now so scandalously great that they constitute a major constitutional weakness* (emphasis added) [HC debates, 9 December 1976].

The Eleventh Report of the Select Committee on Expenditure (Expenditure Committee) [1977], the First Report of the Select Committee on Procedure (Procedure Committee) [1978] and the Second Special Report from the PAC [1978-79] proposed significant changes to the status and role of the state auditor. More importantly for the thesis of this work, each of the Committees criticised the incomplete nature of state auditor independence and the high profile given in the

63. Great Britain, 1977-78, Fourteenth Report of the Expenditure Committee, "Financial Accountability to Parliament", *BPP*, HC 661;

Great Britain, 1977-78, First Report from the Select Committee on Procedure, *BPP*, HC, Sessional paper 588, Volumes I,II,III;

Great Britain, 1977, "Eleventh Report of the Expenditure Committee", *BPP*, HC 535, Session 1976-77;

Great Britain, 1978-79, "Functions of the Comptroller and Auditor General", Minutes of evidence from the Committee of Public Accounts, 2 April, *BPP*, Sessional Paper 330;

Great Britain, 1979, "The Work of the Committee of Public Accounts and the Status and Functions of the Comptroller and Auditor General", Second Special Report from the Committee of Public Accounts, *BPP*, Session 1978-79;

Great Britain, 1980, (Green Paper), Paper presented by the Chancellor of the Exchequer: "The Role of the Comptroller and Auditor General", *BPP*, Cmnd 7845;

Great Britain, 1981, "The Role of the Comptroller and Auditor General", First Special Report from the Committee of Public Accounts, *BPP*, Vols.I-III.

existing audit legislation to Treasury direction [Expenditure Committee, para.160; Procedure Committee, paras.8.18 and 8.20]. Section 3(1) of the *Audit Act of 1921*, which had replaced section 27 of the *1866 Audit Act*, particularly concerned the two Committees. Under this section the C&AG was directed to carry out *any* examination of accounts which the Treasury requested. Further, should any dispute arise with a departmental accountant the Treasury's decision would be final.

Both the Expenditure and Procedure Committees also drew attention to the contradiction in the independence of the Comptroller and Auditor General's staff. While the Comptroller and Auditor General's personal independence was promoted by legislation his staff still had no similar guarantees. Audit staff were appointed only with Treasury approval and were paid according to Treasury and Civil Service Department determined scales of remuneration. The size of the Comptroller and Auditor General's staff and his ability to attract properly qualified staff were therefore in the hands of the Treasury⁶⁴. To resolve this inconsistency the Procedure Committee recommended that the audit staff should be paid from a separate vote of the House of Commons, thereby becoming unequivocally servants of the House. No longer would they remain in the no-man's land in which they had been since 1866 [Procedure Committee 1978, para.821]. If the Comptroller and Auditor General's staff were servants of the House, the Procedure Committee then saw the opportunity for the C&AG to become more like his American counterpart and accept requests for assistance from committees of the House. This implication, however, worried both the C&AG and the PAC [Great Britain, 1979, Second Special Report, PAC, para.15]. They were afraid that the effect of making the state auditor an investigative arm of Parliament, instead of maintaining its present review function, would seriously undermine the independence of the Comptroller and Auditor General, not enhance it as the Procedure Committee hypothesised.

64. See Chapter 3 for more detail about the level of Treasury control.

The C&AG responded to the Procedure Committee's suggestions by drawing to their attention that under the existing conditions his ability to carry out audits on behalf of Parliament but without being at their specific direction ie. their servant, ensured that his independence from the Executive and the Legislature was both apparent and real [Great Britain, 1979, Minutes of Evidence, Procedure Committee, 12 February]. He was therefore opposed to any changes which brought him further under Parliamentary control. The PAC was concerned that by making the state auditor responsive to the requests of parliamentary committees the core audit work of the Office would suffer [Great Britain, 1979, Second Special Report, PAC, para.15]. It might also lead to confusion amongst auditees about the functions which the auditors were performing: have they come for a statutory audit, in which case they are entitled under the Audit Act to have access to all relevant records and accounts, or have they come as consultants to parliamentary committees in which case their access rights would be very different [Great Britain, 1979, Second Special Report, PAC, para.20].

In general the PAC was very sympathetic to the views of the C&AG on most issues raised by the Procedure and Expenditure Committees. They also took the opportunity in their Second Special Report of 1979 to express their confidence in the selection of the state auditor from the Whitehall bureaucracy ie. from the Treasury⁶⁵. Indeed, the PAC reiterated comments made at the turn of the century that it was highly desirable that the

Comptroller and Auditor General should be very familiar with the full range of public finances ... and with the machinery of Government. We do not believe there is any foundation for the suggestion that the former career of a Comptroller and Auditor General in Whitehall detracts from his ability to make independent judgements as Comptroller and Auditor General [para.14; see also Henley 1989, p.249].

65. Compare this with the audit reforms in Canada in 1977.

Despite the PAC's strong statement of support some members of the Committee were more sceptical and questioned the C&AG very closely on his relationship with the Treasury and the implications which this had for his independence. With each probing question the Comptroller and Auditor General, Sir Douglas Henley, assured the Committee that *despite how it might look* to an outside observer, his close relationship with the Treasury, both in his capacity as state auditor and as a former senior Treasury official, had no relevance for the performance of his duties in an independent manner [Great Britain, 1979, Minutes of Evidence, Second Special Report, PAC, Q.s 1481, 1482]. Henley regarded it as "absurd" [Question 1487] and an "insult" [Question 1477] that anyone should think that the Treasury had an inappropriate influence over the Comptroller and Auditor General. People might hold this view, castigated the offended Comptroller and Auditor General,

because they do not know the office, do not understand how it works, and probably have not studied adequately the work of the Committee [Great Britain, 1979, Henley, Minutes of Evidence, Q.1487].

The C&AG therefore asked the Committee to accept his word as a distinguished officer that there has never been and could not be anything improper in the close association of the state auditor and the Treasury. He asked the PAC to rely on its knowledge of the state auditor born of a long and mutually beneficial association to continue to accept his assurances. Therefore, again interested observers and the public at large were asked to accept the *assurances* of the state auditor that the most important component in ensuring independence of the state auditor was his personal integrity and high standing. He may only enjoy *conditional independence* but his assurances were meant to give it the gloss of *substantive independence*. Doubts were not part of the discourse of independence.

Rather than make any firm recommendations for change in state audit the PAC reserved their judgement until the new Conservative Government of Mrs. Thatcher

issued their announced Green Paper [*BPP*, 1980, Cmnd.7845] on the role of the state auditor. An exception to the PAC's reticence at this time was its belief that state audit could and should play a greater role in improving economy and efficiency by developing a closer relationship with the audited bodies, ensuring at all times that the auditor's independence is not prejudiced [Great Britain, 1979, Second Special Report, PAC, Appendix 1, "Report of the Steering Committee", p.30].

The Green Paper [1980], which was written by the Treasury, could be seen as an attempt by the Executive to regain control of the debate on the role of the state auditor. It established that the Government saw it as appropriate that there be some modifications to state audit but that these would not go as far as informed critics and Parliament's own committees had proposed. The Paper confirmed that the state auditor should be concerned with the efficiency and economy of public expenditure and "*in appropriate cases ... investigate the effectiveness of programmes and projects in meeting established policy goals*" (emphasis added). It was also envisaged that there should be a reduction of Treasury direction in state audit. Significantly the Green Paper maintained that the state auditor should continue to be excluded as auditor of the nationalised industries and should not be made an officer of Parliament⁶⁶, although the Government was prepared to consider alternatives to the present funding arrangements for the state auditor's Office [*BPP*, Cmnd.7845, para.64].

The PAC responded to the Government's position by conducting its own inquiry in 1981, the first one specifically to examine state audit⁶⁷ since 1866. The changes outlined in the Green Paper did not go far enough for the PAC or for some of its witnesses. A particularly vocal and informed critic of state audit appearing before the Committee was John Garrett⁶⁸.

66. This accorded with Henley's view as noted above.

67. Earlier references to state audit by the Expenditure and Procedure Committees were more in the way of asides as part of other inquiries.

68. Garrett was an MP at the time and a well known member of the Fabian Society.

Garrett, who had extensive experience with the public sector, was a recognised expert on public sector management and a well known commentator on state audit [see for example his text *The Management of Government*, 1972]. Garrett argued that Gladstone had intended that the state auditor (and his Office) should be an officer of the House but that this had been subverted along the way [Great Britain, 1981, PAC, Appendix IV, p.9]. Garrett was also highly critical of the close association between the C&AG and the Treasury. He argued that this had had the effect of confusing the appearance of independence of the state auditor and had also deprived the state auditor of the ability to improve the accountability of the Executive to Parliament. Under the influence of the Treasury's directions public sector accounts continued to be obfuscatory, uninformative and of no use for management planning and control purposes [Appendix IV, p.9]. There was certainly nothing in the government's accounts which could be used to reflect upon the efficiency or the effectiveness of administrators. Garrett laid the blame at the door of the Treasury for the archaic state of the public accounts and the inability of the state auditor to make a difference:

because the Comptroller and Auditor General has been appointed from the ranks of the higher Civil Service, our state audit has tended to take on the attitudes of our higher Civil Service which give a low valuation to quantitative analysis and performance measurement [Appendix IV, p.9]. (The Treasury) has acted as a brake on the PAC in ... trying to extend the boundaries of public accountability [Appendix IV, p.50].

At the very outset, the PAC indicated its dissatisfaction with the government's proposed limited modifications to state audit. The PAC strongly believed that

the present legislation is out of date and does not reflect the nature of the audit at present carried out by the Comptroller and Auditor General. More importantly, it is essential to make statutory provision for a framework of public audit in this country sufficient to ensure accountability to Parliament for the wider range of public expenditure now and in the future [para.8.1].

In contradiction to the limitations on audit coverage contained in the Government's Green Paper, the PAC recommended that the state auditor be given access to the accounts of all bodies which were substantially supported by public sector funds, including the nationalised industries [para 8.10]. They also wanted to see the formation of an autonomous audit office which would be paid for by a separate vote by the House of Commons. To oversee this new Office, to be called the National Audit Office [NAO], and the new financing arrangements, the PAC sought the creation of a Public Accounts Commission from the House of Commons. This commission would take the place of the Treasury and the Civil Service Department in appointing audit staff and determining their conditions of employment [para.8.14]. The Commission would be Parliament's watchdog to ensure that the state auditor had the resources and the freedom to carry out his responsibilities unhindered and be the means to extend and strengthen the accountability of all public sector agencies.

The Government in its reply to the PAC in July 1981 excluded any extension of the Comptroller and Auditor General's mandate to cover any agencies other than those which were at present covered by the *Audit Act*. It was also apparent in their reply that state audit reform was not to be a priority of the Government and that they considered the existing legislation sufficient to deal with any "*desirable changes*" [para.6]. Parliamentary committees, however, continued to show that they were not prepared to let the matter lie. In 1982 the influential Treasury and Civil Service Committee concluded that

without the creation of a National Audit Office under ultimate parliamentary control ... as the Public Accounts Committee propose, neither Parliament nor the country has adequate machinery *independent of the executive* with which to point out where inefficiencies in the executive lie so that they can be remedied. *An audit largely controlled and influenced by the Treasury, as the present one ... is not sufficient for this purpose* (emphasis added) [Third Report, 1982, p.xxx].

4.4.5 At Last, Substantial Audit Reform: The National Audit Act 1983

Ultimately it was through a private member's bill⁶⁹ that the Executive was brought somewhat reluctantly to state audit reform; even then the majority of the 1866 legislation was left undiminished in authority. With a general election fast approaching which would test the popularity of its hard economic decisions, the Thatcher Government was left with little alternative but to agree to reform. As its 1980 Green Paper indicated, the Government was not prepared to agree to every change which had been canvassed by Parliamentary Committees. After prolonged negotiation the Government was able to have the new Audit Bill passed in a form which was really a restatement of its Green Paper, with some slight modifications. The Executive's reluctant stance on audit reform was consistent with the position of most previous governments eager to resist further accountability to Parliament. However, in the public sector reform ferment of the early eighties the self interest of this opposition became particularly obvious with the Government expecting its agencies to be more accountable to the Government for their performance yet the Government was not eager to extend the same conditions to Parliament and to the Nation at large.

The *National Audit Act of 1983* [hereafter the *NAO Act* or the *1983 Audit Act*] contained very few clauses, 15 in total, but within these clauses the British state auditor was provided with the means of attaining *substantive independence*⁷⁰ for the first time in the history of British state audit. It was the long awaited final supplement to the *1866 Audit Act*. At the heart of the *NAO Act* were provisions to enhance the independence of both the state auditor and his Office and formal, explicit recognition of the state auditor's *right*, now a *responsibility*, to comment on management performance.

69. The Bill was introduced into Parliament by Norman St. John Stevas.

70. Henley refers to it as "full independence" [1989, p.267].

Any ambiguities which had lingered over the years about the relationship of the C&AG with Parliament were dispelled by s.1(2) which made him an officer of the House of Commons and s.3(5) which made it clear that the C&AG and his staff were not officers of the Crown. This did not mean, however, that the state auditor's independence from Parliament had changed and that he would be at the beck-and-call of Parliamentary committees. Being an officer of Parliament was not the same thing as being Parliament's servant. Spelling out the relationship in the legislation was really only recognition of what had long been held to be the case.

Amongst the most important clauses in the Act were those which sharply reduced the presence of the Treasury in state audit. Most important in this regard is s.1(3) which gave the C&AG "complete discretion in the discharge of his functions". In addition, the C&AG was given control over the appointment of his staff [s.3(1)(b)], including the number to be appointed [s.3(2)] and their conditions of service and payment [S.3(3)]⁷¹. Audit staff were no longer civil servants and the NAO was established as a corporation. Money for the work of the Office was now to be provided separately by Parliament on the basis of budgeted estimates submitted by the NAO to the Public Accounts Commission⁷², a new body previously sought by the Procedure and Treasury and Civil Service Committees which would be the state auditor's advocate to Parliament. Its main roles were to see that the state auditor was adequately funded to meet his responsibilities and to act as an adviser to the C&AG [s.4(2)]⁷³. Direct parliamentary financial controls were therefore finally substituted for Treasury controls over the operations of the state auditor.

71. The Comptroller and Auditor General was required to ensure that the conditions in his Office were "broadly in line" with those employed in other parts of the civil service.

72. For details about the make-up and creation of the Commission see s.2 and Schedule 1 of the *NAO Act*.

73. It had a number of other duties such as appointing an auditor of the NAO and seeing to the preparation of Office's appropriation accounts [s.4].

Whereas changes to the financing and staffing of the state audit office created an office which was significantly different in form and external governance to that which held previously, provisions of the *NAO Act* which referred to examinations into economy, efficiency and effectiveness [ss.6(1), 7(1)] served mainly to confirm what the state auditor and others claimed he had been doing for some time [Great Britain, 1979, "Steering Committee Report", referred to in the Second Special Report of the PAC, para.17⁷⁴; Henley 1989, pp.215, 267]. As an early example, Comptroller General Richmond, in evidence before the Committee on National Expenditure in 1902, had made it very clear where he stood:

I think it is my duty to report anything which in my judgement ... concerns the House of Commons to know. ... I do not feel myself debarred from calling attention to anything which has occurred in the course of my audit during the year which indicates loss or waste ... I have to act with great care and discretion. It is not for me to criticise administrative action ... but if I find the result of administrative action has been a loss or wastefulness of public money, then I think it is not going beyond my duty of reporting as an officer of the House of Commons if I call attention to matters of that kind, even though the account itself would not disclose the facts.

According to Assistant C&AG David Dewar, concern for value-for-money in the public sector goes back over 800 years. Certainly, he claims, value-for-money audits have been at the heart of public accounting and

pursuing them has always been a natural- indeed inescapable- part of the public sector auditor's responsibilities ... Value-for-money audit is not an extra which has recently been grafted onto the public service auditor's "proper" responsibilities [1985, p.13].

Tomkins [1987, p.63] disputes declarations such as Dewar's that the state auditor had been for some time actively engaged in what constituted efficiency or value-for-money

74. Henley refers to the case in 1888 when the Comptroller and Auditor General questioned the army about a purchase of medal ribbon as probably the first time value-for-money observations were made. The army in this instance disputed the Comptroller and Auditor General's right to question the army's purchasing decisions. After the Comptroller and Auditor General received the support of the PAC the army was surprisingly forced to back down, on this occasion. [For the original see the Second Report of the PAC, 1888, HC 317, para.72].

audits. On the contrary, he was unable to find any evidence that the state auditor had established *discrete audits* which were concerned with efficiency or effectiveness. Rather, most of the state auditor's observations of a "value-for-money" nature were incidental to audits of regularity and legality. In addition, there was no detectable concern for the efficient use of resources within each appropriation vote or head. In the circumstances, if management had not put in place procedures to verify the value-for-money of their actions how was it possible for the state auditor to accomplish this feat [Tomkins 1987, p.63]. Other authors are agreed that, prior to the civil service reforms of the late seventies and early eighties, concern for efficiency by public sector administrators was

symbolic rather than substantive ... The lack of financial training for permanent secretaries made their traditional stewardship of regularity difficult enough quite apart from any notions of economising [Gray and Jenkins 1986a, p.182].

On the limited evidence available⁷⁵ specific mention of efficiency and effectiveness examinations in the NAO Act did not lead to a transformation of the audit office's organisation or radically change its working practices despite the PAC seeing this as appropriate [Great Britain, 1979, Second Special Report, PAC, Appendix I, "Report of the Steering Committee, p.30]. The new provisions had little effect on the early audit reports with the C&AG continuing to maintain a detached position, offering little in the way of concrete suggestions for improvement or more critical analysis. Like his Canadian counterpart, the C&AG explained that any blandness in his reporting was in part due to the need to solicit the views of auditees on the accuracy of the audit reports, although not necessarily their agreement on audit recommendations. The skill

75. Glynn [1987, pp.151-52] has complained that there is little information available to the researcher to gauge the quality and the scope of the work carried out by the NAO with the result that "(t)he audit practices and philosophy that underlie the ... approach to value-for-money remain shrouded in a veil of secrecy". On secrecy in British government evaluation see also Jenkins and Gray 1987, p.13.

base of the Office did not change, the C&AG believing that an accountancy qualification was sufficient for the needs of his Office⁷⁶. He informed the PAC that

I do not myself accept that the job of a national audit department depends upon the widespread recruitment of a large number of different specialties- the engineers, the physicists, the medical experts, and so on- which to some extent, I think, the GAO recruits. (There) is very little effective scope for the employment of specialists as specialists [Great Britain, 1979, Minutes of Evidence, Second Special Report, PAC, Q.1525].

In a similar fashion to Canada, the British state auditor chose to retain the existing distribution of duties and make value-for-money auditing part of the normal cycle of financial audits, although not every financial audit would lead to a value-for-money investigation. Certainly, sometimes the financial audit would disclose things which would lend these to further investigation. Despite the claims of the NAO, most outside commentators have agreed that value-for-money audit in the mid-eighties still had a long way to go [Glynn 1987b, p.25].

While none of the terms economy, efficiency or effectiveness were defined in the *NAO Act* the Act did make it clear that the C&AG was not to comment upon the merits of the government's policy objectives [s.6(2)]. Reference to effectiveness in the Act was therefore meant to refer to the effectiveness of management procedures and controls in ensuring that resources were used to achieve the objectives of agencies, not whether agencies had been effective in achieving policy goals as this would involve the state auditor in political comment⁷⁷. Comptroller and Auditor General Henley recognised that finding the dividing line between matters of policy and efficiency was often very difficult. It was also in some ways artificial for the state auditor to be excluded from

76. It had only been since 1975 that an accountancy qualification was required by the state auditor for his staff. In 1983 in an office of 682 staff only 66 had a qualification in accountancy [Fielden 1984, p.215].

77. The British state auditor was in the same position as his Canadian and Australian colleagues. Curiously, the *Local Government Finance Act* of 1982 did not exclude the Audit Commission from examining the effectiveness of programs.

questions of policy because it may be necessary when examining management efficiency and administrative effectiveness to determine: (a) if policy goals have been established; (b) whether procedures are in place to check effectiveness, (c) whether goals have been achieved and (d) if there are alternative ways to achieve set goals [Henley 1989, p.257-8]⁷⁸. Examinations of efficiency and effectiveness were limited to stipulated agencies. Substantially, the *National Audit Act of 1983* did not increase auditee coverage with the nationalised industries and local government audit remaining beyond the state auditor [see s6].

4.5 CONCLUSION

In this chapter it has been shown that state audit reforms in Britain and Canada were not acts of Executive generosity. Instead, they were forced on the Executive as part of the change in the public service management paradigm which had dominated governance for over a century. Economic problems which worsened in the 1970's caused governments to question the suitability of traditional processes and understandings of accountability. In particular, the cosy, protective relationship between senior public servants and their Ministers which allowed poor performance within departments to go undetected or, if exposed, to escape retribution was widely condemned. The position of public sector management in Canada before the management and accountability reforms of the seventies was not unlike that of Britain where

the civil service, although excellent in endeavouring to provide what it was that Ministers wanted, was not tuned in to providing it with the minimum use of resources in the process. It is not that it would deliberately waste resources but efficient use of resources was not high on the list [Great Britain, 1985-86, Sir Robin Ibbs, Minutes of Evidence, PAC, Q.2150].

78. Australian and Canadian state auditors have been concerned with (a) and (b) only.

Opening management performance to scrutiny by extending the state auditor's mandate to include performance audits was accepted as an important contribution to improving management performance. Review by an external body which would publicise its findings through reports to Parliament, instead of restricting them to members of the Executive, would provide a powerful reminder to public service managers of the importance now placed on obtaining value for money from public sector resources. At the same time as the auditor's mandate was extended, governments in Britain and Canada were reluctantly coerced into giving greater independence to state audit. It has been shown that in both countries for over a century no significant alterations had occurred in the original audit legislation which had confined audit to issues of legality and regularity. The legislation had also ensured that state audit would be condemned to a position of Executive dependency.

Through the experiences of the Canadian Auditor General Maxwell Henderson, the chapter has illustrated the trenchant resistance of successive executive governments to reforming state audit. Only when under the most extreme political and economic pressures was the Executive forced into reform. As Henderson's successor, James Macdonell took a less confrontationist approach and cleverly enlisted the assistance of prominent private sector accountants in his quest for a stronger, independent audit function. The chapter has shown that Macdonell's initiative in establishing the Wilson Committee in 1975 and the Financial Management Control Study (FMCS) created a momentum for change in state audit which the Government was unable to rebut. The Wilson Committee saw that a modern, independent state auditor who was empowered to carry out performance audits was an essential component to the Government's drive for an efficient public service. The FMCS, Macdonell's alarmist warnings of defects in Executive accountability and the Royal Commission on Financial Management and Accountability together provided the final push for an already embattled and vulnerable Executive to reform state audit.

Audit reform in Britain was preceded by a long period of public sector change in the seventies as a response to economic and social crisis. Initiatives of the Wilson and Heath Governments which focussed on individual departments proved unable to deal with the vastness of the dilemmas which Britain and most Western nations were facing. With the rise of Mrs. Thatcher in 1979 a combination of short, focussed programs, such as the Rayner scrutinies, and service wide strategies in the mould of the FMI were implemented with the aim of bringing about a long term improvement in public sector performance. A re-examination of the role of state audit in this process could not be escaped.

The actions of the British Government in delaying audit reform have been shown to bear remarkable similarities with the Canadians. A key difference between the two countries, however, was the very extensive involvement of the British Parliament and its committees in calls for audit reform. An accumulation of observations by the PAC and the Expenditure Committee in the late seventies forced the Executive publicly to consider its position through its Green Paper on the Role of the Comptroller and Auditor General, which became the nucleus of the *National Audit Office Act* in 1983.

Despite the example of Canada and later Britain, the next chapter will show how Australia, when faced with very similar pressures for change, chose to leave state audit ill equipped to meet the challenges of a new, emerging form of governance.

**AN HISTORICALLY INFORMED EPISODIC STUDY OF
STATE AUDIT INDEPENDENCE**

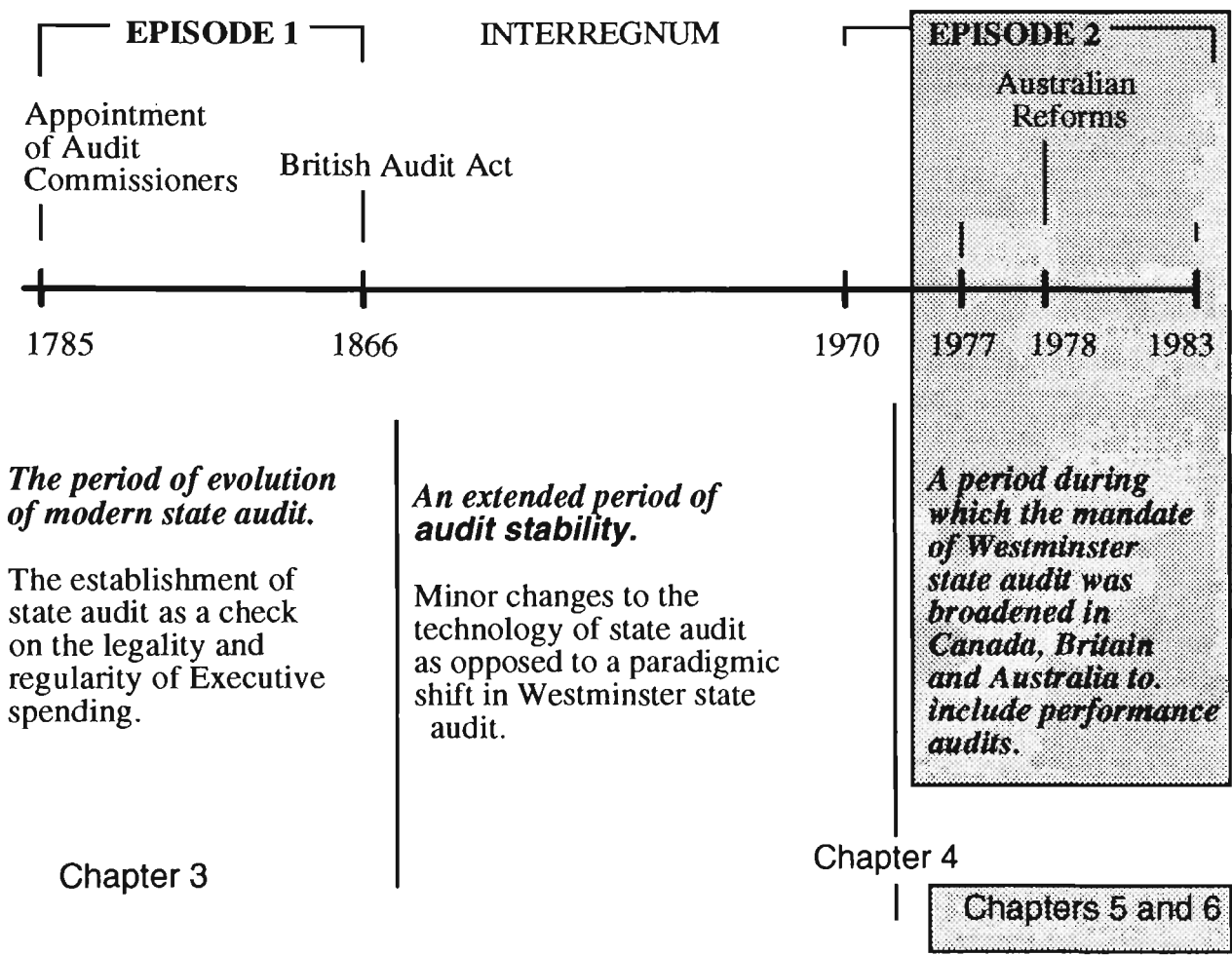
VOLUME II

CHAPTER 5

STATE AUDIT REFORM IN AUSTRALIA: 1973-79

Regularity audit is a negative form of control. It is not concerned with efficiency, nor even in a broad sense with the economy of administrative action. It has no interest in improvement, in simplification, in rationalisation or reform; in a word, the application of common sense to public business. It is solely responsible for enforcing rules, or bringing to light infringements of them, and can take no objective thought for the public interest [Normanton 1966, p.102]

EPISODES IN THE EVOLUTION OF STATE AUDIT



CHAPTER 5

STATE AUDIT REFORM IN AUSTRALIA: 1973-79

5.1 INTRODUCTION

The purposes of this chapter are to map the forces and events precipitating changes to state audit in Australia in 1978 and to identify the consequences of these changes for the long standing constitutional relationships between the Executive, Parliament and the state auditor which were to be the source of unprecedented stresses on traditional conceptions of state audit independence.

As chapter 4 has shown, in Britain and Canada discontent with the level of accountability in the public sector, the forms which accountability took and the means available to ensure that accountability was enforced caused a re-evaluation of state audit in the seventies. This resulted in the emergence of a more muscular state auditor who was not only given a wider audit mandate but, through measures which for the first time appreciably enhanced the independence of his Office, was also provided with the mechanism to ensure state audit would be more relevant to a new form of governance which was founded on the principles of managerialism and positive economics.

Since the passing of the original *Audit Act* in 1901 state audit in Australia had suffered from a level of neglect similar to state audit in Canada and Britain prior to their reforms. From the beginning, the Australian state auditor's legislated powers and duties which stemmed from a conception of independence borrowed from Britain had effectively marginalised state audit in any important economic and public service

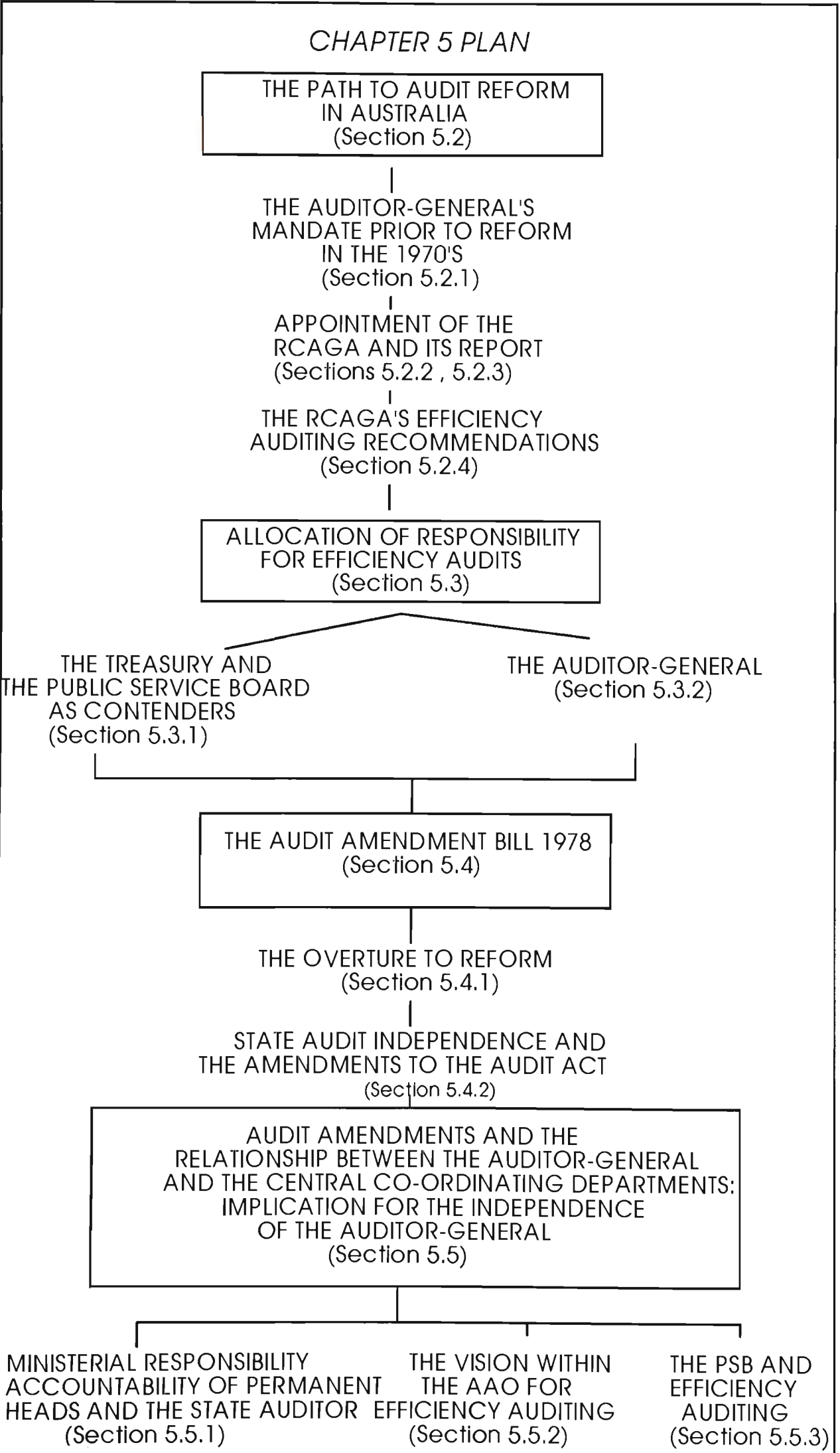
debates. An aversion to commenting on matters of government policy because this was seen as prejudicing the state auditor's independence meant that the state auditor was not expected to participate in proposals for public sector reform or to be the initiator in any structural changes. The state auditor was not to be the iconoclast but the preserver. The state auditor's limited, clearly timetabled and, therefore, controlled intervention in public sector debates through legislated reports meant that the predictability of state audit was promoted. For an incumbent Executive a state auditor who knew and accepted his place according to the precepts embodied in Westminster interpretations of state audit independence, and accordingly was his own harsh policeman, minimised its susceptibility to embarrassment. It is therefore quite understandable that governments were prepared to broaden the tasks of the state auditor but not to change the strength of his independence.

The most important development in Australian state audit after 1901 occurred in 1978 with the introduction of a legislated efficiency auditing role. The introduction of efficiency auditing involved the state auditor in a redefinition of not only his own work but also that of the central co-ordinating authorities, especially the very powerful Public Service Board's (PSB) authority to oversee the efficiency with which departments were managed. The PSB was now going to have to share part of this function with the state auditor. The PSB therefore made sure that it was given a major role in the establishment of efficiency auditing and any assessment of this function. Accordingly, efficiency auditing came with numerous conditions attached, the most important of which was the necessity to liaise with the co-ordinating departments under the pretext that this would avoid duplication of performance evaluation efforts conducted at different levels by central agencies.

This chapter firstly traces the processes and events leading to audit reform in Australia in 1978-9. Of especial significance in section 5.2 are the recommendations of the Royal Commission on Australian Government Administration (RCAGA) which was

established by the Whitlam Labor Government and the articulation between state audit and demands for improved accountability of the public service. The recommendation of the RCAGA that efficiency auditing be implemented is significant in this regard. Early hopes that the recommendations of the RCAGA would be the catalyst for substantial reform in the public service were soon proven to be forlorn under the Fraser Government. Section 5.3 then considers arguments promoted in favour of the Auditor-General as the most appropriate agency to conduct efficiency audits, as opposed to one of the central co-ordinating authorities. Central to the discussion is the tension created by efficiency auditing for the traditional Westminster principle of ministerial responsibility and the role of the public service. In section 5.4 the passage of the audit reforms in 1978, primarily to give effect to efficiency auditing, is shown to have been devoid of any intention to improve the independence of state audit. Finally, section 5.5 examines the impact which efficiency auditing had on the relationship between departments, the central co-ordinating of the Department of Finance (DOF), PSB, and the Department of Prime Minister and Cabinet (PM&C) and the state auditor as reflected in disputes over the legitimate role of state audit.

The form of the chapter is summarised below:



5.2 THE PATH TO AUDIT REFORM IN AUSTRALIA

5.2.1 *The Auditor-General's Mandate Prior to Reform*

In the early seventies the work of the state auditor was still very much as it had been in 1901, the exotic progeny of the British *1866 Audit Act*¹. Its essential British antecedent features had changed little: the purposes of audit which had been borrowed were largely in tact and the constitutional relationship between the state auditor, Parliament and the Executive had been perpetuated in its 19th century form. State audit was still only *conditionally independent* of the Executive.

The *1901 Audit Act* was an omnibus document covering detailed financial controls primarily the responsibility of the Treasury and audit provisions which were the province of the state auditor. The main audit features of the Australian *Audit Act* were determined by the requirements of sections 81, 83 and 94 of the Constitution, which encapsulated the core principles of Westminster government. Section 81 provided that all monies raised by the Executive had to be paid into an account called the Consolidated Fund. Money could only be taken from this fund, stipulated s.83, by an Act of Parliament. Most of the state auditor's powers and duties sprang from the need to ensure that these two central provisions were followed by the Executive. Accordingly, much of the Act dealt with detailed financial procedures, such as the operation of bank accounts and the proper procedures for the payment and collection of money [sections 16 to 34A]. Both Treasury financial control and audit were dovetailed in the Act in a manner whereby the Treasury was required to provide the state auditor with information and reports and the state auditor was held answerable to the Treasury on numerous points [see s.50,51]. Indeed, the relationship between the

1. Australian preference for and subservience to the form of British Governance and its constitutional relationships was reinforced by Sir Josiah Symon during the House of Representatives debate on the Audit Bill in 1901. In his view, recourse should always be made

for instruction and guidance to the British constitution... If it were not so we should be like a barque launched upon a new political sea, with equipment derived from a country of which we have had long and historical experience, but in the management of which barque we are not to have recourse to the equipment [Senate debates, 1 August 1901, p.3366].

state auditor and the Treasury was intimate, constant and weighted in favour of the Treasury.

The *1901 Audit Act* provided that the Auditor-General was to act as both Comptroller and auditor, as in Britain and Canada. All monies released to the Executive had firstly to be cleared by the Auditor-General as available under relevant legislation [s.31,32]. While the comptrollership functions were an essential ingredient of Parliamentary financial control at the time, the core responsibility of the Auditor-General was to audit the accounts and records of the receipt and payment of public money [s.41,41A-C,41D(2),45(1)] and to examine the Treasurer's statement of the receipts and expenditure of the Consolidated Fund, the Trust Fund and the Loan Fund [sections 50, 51]. As a result of reforms in 1920 [No.23, s.10] and 1948 [No.60, s.26,27] the state auditor was no longer required to examine every voucher and conduct a detailed audit of every account as originally required but was instead permitted to rely on the checking carried out by departments.

Administration of the *Audit Act* came within the portfolio of the Treasurer [until 1976] as did staff appointments to the state auditor's Office. During the 1901 debates on the Audit Bill a few unsuccessful dissenting voices had been raised opposing audit staffing controls in the hands of the Treasury [Sir William McMillan and Sir Edward Bradden, HR debates, 4 July 1901, p.2109]. Bradden wanted to make

the Auditor-General as independent as possible. He is to be supreme in all matters of accounts, and a check upon Ministers ... To say that any appointment which he may make should be subject to the control of the Treasury seems to me to reverse the whole position of things, and his independence by making him to some extent dependent on the Treasurer, on whom he is to check [HR debates, 4 July 1901, p.2109].

The Government's intention to continue the British practice and to give itself "absolute control over appointments" to the Audit Office [Sir George Turner, Treasurer, HR debates, 4 July 1901, p.2109] was strongly supported within the House. Reid argued

that the Auditor-General must not have the authority to appoint whomever he liked. To do otherwise would be "irresponsible Government".

Thus, to carry out his duties the state auditor was dependent on the Treasury's 'generosity' and that of the PSB. In his first report, Auditor-General Israel expressed his "appreciation of the *kindness* of the ... Treasurer in affording relief from time to time by appointing additional clerks" (emphasis added) [*First Annual Report of the Auditor-General for the year ended 30 June 1902*, p.148]. The state auditor was not always so well treated. It was not uncommon for the state auditor to complain of delays in filling staffing vacancies as a result of Treasury inaction [see *Eleventh Annual Report*, 1912, p.202, *Nineteenth Annual Report*, 1920, Appendix H and *Twentieth Annual Report*, 1921, p.151]. Despite the controls exercised by the Executive's main financial adviser over its auditor the relationship, with rare exceptions, had generally escaped close questioning and has persisted to the present day².

Irregularities discovered by the state auditor in departmental accounts which he thought were significant contraventions of the *Audit Act* or Treasury Regulations were to be brought to the Treasurer's attention [s.12,45(2)]. A final report on the Treasurer's statement [s.50] pointing to these irregularities, and any other information thought important by the auditor, was to be laid before both Houses of Parliament [s.51,53]. The main purpose of this report was to assure Parliament that the report of the Treasurer ie. the Executive, was consistent with the information in the accounts. The auditor was required to give an opinion on whether only monies approved by Parliament had been spent and for the purposes specified in the Appropriation Acts [s.41(1)(a)] and whether all relevant laws and regulations had been followed [s.41(1)(b)]. He also had to explain the Treasurer's statements by giving reasons for

2. The Royal Commission on Navy and Defence Administration [1918-19] was notable in its criticisms of audit independence from the Treasury. In more recent times, as already noted in Chapter 2, the PAC has expressed reservations about the state auditor's dependency on the Executive's departments.

unexpected amounts³. Discretion was given to the auditor in the contents and form of the reports to Parliament [s.51A]. To carry out these duties the Auditor-General was given very strong powers of coercion [s.13,14,14A,14B,C,25,38(b),39,42(1),42(1A)] which were designed to ensure that he could gain access to all the information he needed to fulfil his role. Although these powers seemed extensive, the Joint Review of Audit Legislation in 1975 pointed to a number of anomalies in the legislation and in accumulated audit conventions which in practice had restricted the access of the state auditor [*Report of the Joint Review*, s.B2.2].

In general then, the *Audit Act* of 1901 limited the state auditor to financial audits and to ensuring that all monies spent were properly authorised and had been approved by Parliament. The *Audit Act* did not require the auditor to go beyond verifying the authority for expenditures and the accuracy of the records of those expenditures. The *Audit Act*, therefore, embodied a largely accountant's view of accountability by equating accountability with better reporting structures and making it a matter of technique. The efficiency with which government programs used resources and whether they achieved their aims were not specified responsibilities of the state auditor [see AAO Submission 1 to RCAGA, 1974, p.3]. Sections 51 and 54 of the *Audit Act* did contain sufficient discretion for an adventurous auditor to test the limits of his mandate but even this was firmly tethered by the regularity and legality base of the audit. Apart from irregular incursions into recommendations for improvements in the supervision of and accounting for spending, the Auditor-General was neither encouraged nor expected to make recommendations on matters of departmental efficiency [Evans, Senate debates, 1 March 1979]. This reflected the general attitude of successive governments whose main concern was pedantic administration of public funds, ensuring that "public servants kept their fingers out of the till" [Expenditure Committee, Minutes of Evidence, *Review of Efficiency Review Mechanisms*,

3. The Auditor-General's reports were mainly a monotonous list of reasons for overspending, the detail of which would have dissuaded most readers.

Chairman, 11 September 1985, p.264], rather than efficient management. By the early seventies this had begun to change, finally being brought to a head with the election of the Whitlam Labor Government in 1972.

5.2.2 The Whitlam Labor Government and the Appointment of the Royal Commission on Australian Government Administration

Worsening economic conditions both at home and abroad, along with public dismay at the perceived financial profligacy, inefficiency and the inertia of a large bureaucracy which seemed determined to drag its feet in the presence of calls for changes in government, provided a fertile ground for the new Whitlam government in 1972 to embark on reforming the Commonwealth public service [*RCAGA Report* 1976, s.2.3.6, p.18; s.3.1.1, p.31]⁴. After 23 years in the political wilderness, Ministers in the first Whitlam government, formed in December 1972, had to deal with a bureaucracy which was used to one master and very well established operating methods and understandings [See *RCAGA Report* 1976, s.2.3.7, p.19]. The new Government, however, was in no mood to be thwarted in the implementation of its given, reformist mandate. The new Ministers wanted their plans implemented without unnecessary delay and as intended.

The Commonwealth bureaucracy which had lived within long periods of political stability during the Liberal-National Country (Coalition) Government's reign was not accustomed to significant change over a short period and were especially resistant to any moves which were interventionist in departmental affairs. Programs introduced by Whitlam were frequently seen by the entrenched mandarins of the Commonwealth bureaucracy as not only reformist and radical departures from the past but as being carried out in a wasteful fashion by heavy handed, clumsy Ministers who had no experience in the subtleties of government [see comments in *RCAGA Report*, s.2.3.7, p.19; Weller and Smith 1977, p.8]. As guardians of the public interest it was easily

4. The RCAGA agreed that at the time of the Whitlam Government's ascension to power there was "scope for substantial improvement in efficiency" [Report s.3.1.2, p.36]

construed within the cloisters of senior officers, especially those within the Treasury and the PSB, that it was their duty to be the brake on the carriage of state before it careered completely out of control under the direction of Labor. The PSB was accused of pursuing practices which resulted in the service "being made to fail. The policies of the Government are being frustrated" [*The Australian*, 19 February 1975; see also *The Advertiser* (Adelaide) and the *Courier Mail* on the same day].

The Ministers for their part were suspicious of bureaucrats who had long given their allegiance to the Coalition and doubted their ability to redirect loyalties [See *The Age*: 12 April 1973; 25,27,28 August 1973; 10 November 1973; *RCAGA Report* 1976, s.2.3.7, p.19]. Comfortable bureaucrats were criticised as developing "a persistently negative attitude" to programs of proposed change [*RCAGA Report* 1976, s.2.3.7, p.19]. Witnesses before the RCAGA criticised the public service as "excessively centralised, excessively hierarchical, excessively rigid and inflexible and excessively resistant to organisational change" [*RCAGA Report*, 1976, s.2.3.6, p.18]. Whatever the individual views of public servants, the Commission reminded them that they were expected to support equally both reformist and conservative governments [*RCAGA Report* 1976, p.22]⁵. At the time an observer noted that as a result of the

professional ... continuous engagement of (officials) ... in the process of policy making and administration ... (they had) a special advantage. .. They are in possession of the levers that control the system and it often requires an excessive amount of political and public pressure to bring about a change of course [Partridge 1974, quoted in Thynne and Goldring 1987, p.17; see also Parker 1980, p.4].

The resistance of the public service to significant change was unlikely to take the form of 'systematic sabotage'. Rather it was more to be expected that those who strongly disagreed with a new policy would not administer it with the same enthusiasm as a policy which they liked. In these circumstances control of the bureaucracy by the elected representatives is indeed tenuous.

5. Continuous criticism was often seen as detrimental to the morale and the performance of the public sector.

Coincident with the problem of dealing with an often reluctant public service, pressure was relentlessly exerted on Labor by the Coalition who were miffed at being moved to the Opposition benches. Throughout their entire period in office from December 1972 to November 1975 the Labor Government was harassed by an Opposition who found it difficult to accept the changed mood of the Country. The Coalition had lost much and were determined to be restored. The Coalition, therefore, cast themselves as the saviour of Australia and Labor policies as "nothing short of total irresponsibility" [Lynch⁶, HR debates, 19 March 1974, p.569]. There was no shortage of statistics to prove the case that Labor had sent Australia on a huge spending spree which it could ill afford. In 1974-5 alone, expenditure rose from 24.2% to 28.1% of GDP [Castle 1987, p 65] and between 1972-73 and 1973-74 spending on public service salaries rose 29%. If spending on defence force personnel was excluded, spending on salaries rose in the same period by 41%. This resulted, in part, from an increase in departments from 27 to 31 and the creation of another 95 boards and commissions of inquiry. The Coalition called these policies of the Labor Government "empire building on a grand scale" [Lynch, HR debates, 19 March 1974, p.568]. "Labor is all bad in their eyes", protested Willis (Labor), "whilst they remain utterly pure and the repositories of vast economic wisdom" [HR debates, 19 March 1974, p.573]. In the inflationary times which were sweeping the world, the Coalition portrayed themselves as the only thing which stood between Australia and bankruptcy.

Impatience and frustration with the pace of change by the bureaucracy led to the Whitlam government announcing in early 1974 that a major inquiry would be established into the Commonwealth Public Service [*National Times*, 3 May 1976]. Schaffer and Hawker⁷ report that Whitlam was under pressure from the Parliamentary Labor Party which threatened to conduct its own inquiry into the public service if

6. Phillip Lynch was to be appointed Treasurer in Fraser's first ministry.

7. Hawker had been the Director of Research for the RCAGA.

Whitlam did not take the initiative [1978, p.34]. With the possibility of a very partisan inquiry looming, Whitlam took the "safe alternative" and compromised by calling for a Royal Commission⁸. Internal Party pressure and the obstacles he encountered within the public service had eventually forced him to seek reform [Weller and Smith, 1977, pp.8-10]. Tom Uren, as acting Opposition Leader, made it clear that Labor wanted a major inquiry into the public service because of "feeling by the Labor Government that the Australian public service was not well suited to the needs of a Government committed to a policy of reform" [Press Statement, 2 August 1976].

After his second election victory in May 1974 Whitlam honoured his promise by announcing in June the Royal Commission on Australian Government Administration under the chairmanship of Dr. H.C. Coombs⁹. Coombs had had a long and distinguished career in the public service during which time he had been the confidant of several Prime Ministers. He was to be assisted by four other commissioners: P.H. Bailey, Departmental Secretary, Department of Prime Minister and Cabinet [PM&C]; Professor Enid Campbell, Professor of Law at Monash University; Dr.J.E. Issac, the deputy President of the Conciliation and Arbitration Commission and P.R. Munro, Secretary to the Council of Public Sector Organisations [see *The Age*, 17 February 1976 for comments]. The RCAGA, the first major review of Government administration for over fifty years [RCAGA Report 1976, p.3], was unprecedented in the scope of its investigations and in the breadth of its recommendations for improving the Australian public service¹⁰. Both sides of the House supported the inquiry, the

8. Whitlam's initial reluctance to conduct a full scale inquiry could be taken to reflect the respect he had for the institution of the public service as a consequence of his father's long career in the Commonwealth public service, the last years as a Permanent Head.

9. This was not the first time that Coombs was brought in by the Labor Government. In 1973, soon after taking office, Whitlam had sought the help of Coombs to conduct a quick examination of the public service. This inquiry was called the Coombs Task Force. The seventies was a fertile time for public sector inquiries. In Victoria it was the Bland Committee (1973-75), the Corbett inquiry in South Australia (1973-75), the Machinery of Government committee in NSW in 1974 and the Wilenski Review of NSW Government Administration in 1977 (with a further report in 1982)].

10. Staffing for the Commission was originally set at 26, divided into a secretariat responsible for administration and preparation of reports and a loosely coupled research group where the bulk of the work of the Commission was conducted. Eventually the Commission required over 70 research staff, 50 project consultants, five task forces and three advisory bodies [Spann 1984, p.486]. For details of

Deputy Opposition Leader referring to it as "historic"¹¹ [Lynch, HR debates, 19 March 1974, p.570].

Under their Letters Patent the Commissioners were empowered to inquire into and report upon the administrative organisation and services of the Australian Government and "to make recommendations for improving efficiency, economy, adaptability ... and the dispatch of public business". Amongst a very broad range of duties the RCAGA was to give "particular attention" to

- (c) parliamentary control and scrutiny of administration;
- (d) responsibility and accountability of public servants ...
- (f) ... the internal control and co-ordination in ... (the Australian Public Service), especially the functions of the Public Service Board, the Auditor General and the Treasury ...
- (g) centralization, decentralization and delegation of functions.

The RCAGA was therefore concerned with the ability of the present arrangements to ensure that accountability was fulfilled and that efficiency and economy were improved. In addition, the Commission directed its attention to policies and practices relating to public service recruitment and conditions of service and the role of decentralisation of decision making in better management.

During the Commission's long life (June 1974 to August 1976) the success of its operations depended very heavily on the co-operation of serving public servants, both as employees of the Commission and as sources of information. Consequently, there had to be a high level of interaction between the Commission and the public service [comments of a senior member of the RCAGA in Weller¹² and Smith 1977, p.5]. As a result of its informal, iterative approach with the public service, according to Hawker "to the person coming from outside, the Commission was in some ways perhaps

the qualifications and employment history of senior staff members see Snedden, HR debates, 12 February 1975, p.222.

11. Lynch did criticise the terms of reference of the Commission for insufficient emphasis on efficiency in the public service [HR debates, 19 March 1974, p.571].

12. Patrick Weller was a member of the RCAGA's research team and was also a co-author for the Commission's discussion paper "Treasury Control of Federal Government Expenditure in Australia".

indistinguishable from those with whom it was dealing" [1975, p.10]. The Commission was aware that if its recommendations were to have any chance of being accepted, and once accepted to make a difference, that they needed to have the active involvement of those who had the ear of Ministers and who would be responsible for implementation. It was therefore essential that the public service have representation on the Commission and have input at crucial stages. There should be no major surprises at the end of the Commission. This approach taken by the Commission may help explain the moderated language and moderated proposals of the final report.

5.2.3 The RCAGA Reports

When the *RCAGA Report* was finalised in June 1976 and laid before Parliament in August the RCAGA was reporting to a new government. The constitutional crisis of November 1975¹³ whereby the Coalition controlled Senate refused to pass the Government's Supply Bills and the resulting election a month later, saw the Whitlam government replaced by a Coalition government headed by Malcolm Fraser¹⁴. The Commission's Report was widely seen as important if not revolutionary [Parker 1976, p.311]. Coombs had intimated before the *RCAGA Report* was released that it sought gradual change and did not attempt to sensationalise critical problems in Australian public sector administration [*The Age*, 17 February 1976]. No attempt was made to bring about wholesale change, the Commission believing that there was much that was good and worth preserving in the public service.

There was strong community support for the main themes of the report which was seen as "a challenge to the complacent" [*Canberra Times*, 13 September 1976]. The *Age* newspaper referred to the *RCAGA Report* as "a monumental effort", a "sensitive approach, sound judgment and sensible proposals" [2 August 1976]. Public service

13. See Appendix 5.1 of this thesis for a list of election dates and results for the period covered by this chapter.

14. There were three Fraser Governments: 22 December 1975 to 20 December 1977, 20 December 1977 to 3 November 1980, 3 November 1980 to 11 March 1983

unions were generally supportive of the proposals for change, especially those recommendations which advocated a reduction in the centralised control of the Treasury and the PSB [*Sydney Morning Herald*, 3 August 1976]. The journal of the NSW Branch of the Administrative and Clerical Officers Association of the Commonwealth Public Service, *White Collar*, recommended that

the report should be seen as a serious attempt ... to come to grips with the problems besetting the Australian Public Service, to remedy its failings and provide a blueprint for its future development. It is a document of substance which should provide the basis for all round improvement in Australia's public service [quoted by Stewart, HR debates, 22 September 1976, p.1339].

The PSB on 1 August 1976 professed that it had been beneficial to the PSB to have its policies and practices re-examined and that it saw the Commission's findings as

being of profound importance for the future of public administration in Australia ... (and contained) much that is constructive and forward looking which should ... lead to significant improvements in the quality and effectiveness of the service [MacDonald¹⁵ 1977, p.65].

This praise was not enough to convince many informed observers of the PSB's enthusiasm for findings in the *RCAGA Report*. It was especially hard to believe given the amount of criticism which had been directed at the PSB, in particular in the course of the inquiry, and which were relayed in *the RCAGA Report* and its appendixes [see especially chapters 8 and 9 of the *RCAGA Report*]. One commentator saw the PSB's comments as part of the need of

prestigious bureaucracies ... to *maintain an air of professionalism* and this requires support for administrative reform. Such bureaucracies have often ended up sponsoring administrative reform activities that are carefully circumscribed and oriented so as to pose little threat to the bureaucracy's power and prestige [Groves 1976, quoted in Scott 1978, p.193].

15. Secretary to the PSB.

The *RCAGA Report* contained 78 recommendations for the functioning of the PSB which the Government left to the Board to examine 'as resources permitted'. The *Canberra Times* [14 December 1976] was suspicious that this 'smacked' "of a premature exercise precipitated by political action" which was designed to park the recommendations in a quiet siding while the public tumult rushed by. It was an approach which could ensure that very little would be done by the Board in putting its own house in order.

While there was a sense that something momentous had been completed with the tabling of the *RCAGA Report* there was, as noted above, some disappointment. Not everyone could be expected to be enthusiastic disciples of the Commission. Pat Troy, formerly Assistant Secretary of the Department of Urban and Regional Development, referred to the report as a collection of the "most banal cliches which defend and obscure the issues" [*The Canberra Times*, 13 September 1976]. In particular, it was suggested by eager reformists that the report was only a pale image of what it would have been had there not been a change in government in December 1975. Professor R.N. Spann of Sydney University¹⁶ accused the Commission of 'pulling its punches' [1977, p.81]. The *Canberra Times* [2 August 1976] warned that the report was too moderate in its tone, understated the importance of its recommendations and thereby ran the risk of denying the importance of reform. A new "political reality", it was alleged, had forced the Commission to dilute its recommendations to gain the sympathy of the new Coalition Government [see also *National Times*, 3 May 1976; Spann 1984, p.485; Matthew's¹⁷ 1978, p.271]. For many, the *RCAGA Report* confirmed the observation of the Task Force on Efficiency that

no Australian Government has been willing to challenge the system or those who guard the system, so powerful and entrenched have they become, and so protective are they of a system that serves *them* well

16. Spann had been actively involved with the Commission and responsible for at least one of its major papers. He was also the author of the major book *Government Administration in Australia*.

17. Matthew's had been on the research staff of the RCAGA.

but not the government or the people who foot the bill. It has created large vested interests that believe themselves impregnable [RCAGA, Vol.1, Appendix 1F, p.186].

The *RCAGA Report* contained several main themes, including:

- the need for clear objectives for departments
- politicians should become actively involved in the decision making of their departments. The Commission accepted the concept of Westminster ministerial responsibility but argued that the way it was practiced needed to change [Recommendation 2 (R.2)].
- the performance of the public sector could be improved if senior officers were given greater freedom and flexibility in their decision making. In particular, there needed to be better integration of personnel and finance decisions. It therefore called for a reduction in the controls exercised by the main central co-ordinating departments. These reforms would also make the public service more responsive to the needs of the community and reduce the perceived isolation of the public service [R.311; *RCAGA Report* 1976, p.410].

Change to the form of Australian governance was in progress and it was made clear that the traditional public service forms and functions of accountability must change.

Thus, the main thrust of the *RCAGA Report* was to call for an increase in responsibility for departmental performance on the part of Ministers and public servants and improvements in accountability. For this to be accomplished the bastions of Treasury power would first have to be stormed. A considerable weight of evidence was brought before the Commission that there was widespread dissatisfaction with the imperial and imperious approach of the Treasury to its functions [*RCAGA Report* 1976, s.10.1.1, 11.1.9, 11.3.11-13, 11.3.8]. The Treasury was seen as arrogant and unnecessarily difficult in its relations with departments [*Financial Review*, 2 August 1976]. This was only to be expected when the Treasury had power over the purse strings and the

departments wanted access to the purse. Needless to say, the Treasury was unlikely compliantly to accept the implied criticisms of the Commission. It was rumoured in the press that to defend itself the Treasury had set up a special task force to undermine the credibility of those of the Commission's recommendations which concerned the Treasury, especially those which threatened the Treasury's near monopoly of economic advice. Much of the force of the Commission's recommendations which were related to the Treasury was dissipated when the Fraser Government took away most of the Treasury's powers of financial management and supervision and gave them to the newly formed Department of Finance (DOF) in 1976¹⁸.

Within Parliament there was considerable support for the recommendations of the Commission, especially, as expected, from the Opposition, now the Labor Party [Stewart, HR debates, 22 September 1976, p.1339; Hurford, HR debates, 22 September 1976, p.1327]. After repeated attempts to seek assurances from the Government that it was going to act on the *RCAGA Report's* recommendations, the Government indicated that, while the broad thrust of the *RCAGA Report* accorded with Coalition policies, it had decided to accept only some of the recommendations at the present time and was in the process of considering others [*The Herald* (Melbourne), 2 August 1976; HR debates, 4 November 1977, pp.2934-5]. A sceptical press pointed out that too much should not be expected of the Fraser Government. After all, it was elected on 22 December 1975 because it promised to turn back, not continue, the pace of reform: the public was no longer in a mood for radical change [*National Times*, 3 May 1976; Professor Geoffrey Sawyer, *Canberra Times*, 3 August 1976].

18. The Commission suggested that the Treasury's authority in economic planning be given to a new agency, the Department of Industries and the Economy [Recommendation 264, p.302].

5.2.4 Management and Efficiency in the Public Service: The RCAGA's Recommendation for Efficiency Audits

A central concern of the RCAGA, which ran through and coloured most of its significant recommendations for change, was that officers in the public service should be given greater autonomy in decision making. The Commission saw the widening and deepening of government's role in the community, which had progressively occurred since Federation but at an accelerated pace since the Second World War¹⁹, as accentuating the need for management skills in government [RCAGA Report 1976, s.2.5.1, p.26, p.177]²⁰. Greater government intervention in the community and the resulting raised expenditure levels heightened the need to "greatly ... improve the efficiency of access to and delivery of these services ..." [Crean, HR debates, 29 April 1976, p.1768; Staats 1977, p.9; RCAGA Report 1976, s.2.5.1, p.26; RCAGA, Vol.4, Appendix 4.E, p.93]. Government spending had been condemned to a ratchet effect: it could be added to but not reduced easily. At a Parliamentary seminar in 1984 Pat Lanigan, Director General of the Department of Social Security, criticised the community and politicians for expecting "that everything that was done in the past will be done again and will continue to be done" [Government and Accountability, p.52]. In another, later, forum of Parliament the Chairman of the Joint Committee of Public Accounts (JCPA), David Connolly, lamented how once a program was put in place it was rarely ever reviewed and continued year after year. Eventually the ancient lineage of the programs made them almost 'sacrosanct', ensuring their continued longevity [JCPA Seminar, 1980, p.108]. The Baume Committee [Senate Standing Committee on Social Welfare, 1979] saw that there had been at the time of the RCAGA a crisis in public sector administration brought on by unprecedented levels of government spending and an inability of the Government to guarantee that the bureaucracy would use resources efficiently and effectively [1979, p.1]. In the process there had been a

19. The increase in the number of departments of government from seven at federation to thirty one in the Whitlam Government provides some indication of public sector encroachment in private lives.

20. Note the homomorphic imaging with conditions and events in Canada and Britain as examined in Chapter 4.

loss of accountability to the Parliament and a strengthening of the position of the bureaucracy.

As noted in Chapter 4, there was a general perception in the seventies in the countries chosen in this study that as government got larger the public service became increasingly inefficient, more wasteful and felt no responsibility to the public for its performance [see also Cadman, HR debates, 25 October 1978, p.2313; *RCAGA Report* 1976, pp.18,29; Steele Craik 1977, p.34]. Unlike the private sector, it was argued, the public servant had no 'bottom line' goal to achieve; there was no incentive to use resources frugally and efficiently. Defenders of the public service countered that the Australian public service was no more inefficient than those of other western democracies and in fact was generally very conscientious in its endeavours [Coombs, *A.M.*, ABC Radio, Interview with Hamish Robertson, 2 August 1976; Coombs, Address to the National Press Club in *Financial Review*, 12 August 1976]. Any defects of the public service, considered Commissioner Coombs, could in most cases be attributed to imperfections in the organisation of the public service and the lack of encouragement of ability and initiative [Address to the National Press Club in *Financial Review*, 12 August 1976]. Departmental management was hamstrung by the rigid controls of the central co-ordinating departments which allowed individual departments little opportunity to play an active role in performance improvement [Peter Robinson²¹, *Canberra Times*, 13 September 1976; *RCAGA Report* 1976, p.54]. Administrators, stressed the Commission, could be expected to be more efficient only if they were given more scope to use their initiative, "to act entrepreneurially" [*RCAGA Report* 1976, s.3.2.3, p.34 and s.3.2.12, p.36]. They must also be given the opportunity to assist in the development of objectives for their programs. Participation, argued the RCAGA, produced commitment and from commitment improvements in efficiency could be expected [*RCAGA Report* 1976, s.3.2.9, p.35].

21. Associate Commissioner of the Industries Assistance Commission.

There was apprehension within the public service that an emphasis on efficiency, which Coombs thought the most important aspect of the RCAGA's recommendations [Coombs, *A.M.*, ABC Radio, Interview with Hamish Robertson, 2 August 1976], would, if taken too far, undermine traditional public service values and distort the accepted constitutional relationship between bureaucrat and politician. Efficiency was not, and never had been, the *prime* concern of the public sector and certainly it should not stand above the traditional goals which gave pre-eminence to the rights flowing from citizenship. In its submissions to the RCAGA the Treasury emphasised that its duties went far beyond simply ensuring value was received for money spent [RCAGA, Vol.4, Appendix 4.E, p.92]. Rather, government required a complex balancing of the many demands on public funds; operating efficiently helped governments to meet these pressures but of itself it could not be the objective of their policies. The *Working Party of Officials on Efficiency Audits* (hereafter the *Working Party*) [1977] observed that in the context of government

the term 'efficiency' assumes wider meanings than merely mechanical connotations. Because of its special role in relation to the rights of the community and service to the community, the quality of service provided by a Public Service is assessed not only on its speed, timeliness, and efficiency in meeting defined objectives, but also having regard to such criteria as its equity and consistency in handling a multitude of cases affecting separate individuals and its honesty and probity in the safeguarding of public funds [p.20].

Private sector motives, it was believed, were not to be substituted for those of the public sector. Whereas the 'bottom line' dominated management practice in business, in the public sector there were multiple objectives.

A corollary of greater decision autonomy for government 'managers' was performance review mechanisms which would make managers clearly accountable for their actions. According to the RCAGA,

it is likely that efficiency will be stimulated if it is known that performance will be assessed and that those responsible can be called to account for it ... [RCAGA Report 1976 s.3.2.11, p.36].

Thus, devolution of authority which was to accompany the move to 'accountable management' was not to occur in isolation from critical external reviews of performance according to the objectives set by and for public sector management²². Equally, these performance reviews should not be divorced from management reforms. In the Commission's scheme for improved public sector performance, the performance reviews by an external body were to *follow* greater devolution of authority: they made sense only in combination with antecedent management reforms. Therefore, the RCAGA proposed amongst other measures "a regular program of efficiency audits" designed to "clearly establish the primacy of political responsibility for administrative efficiency" by making departmental heads accountable to their Ministers, the Cabinet and the Parliament for the efficient running of their departments [RCAGA Report 1976, s.3.6.1, p.46, pp.136ff]. During the second reading of the Audit Amendment Bill Willis praised efficiency auditing as a means for ensuring that government resources were being used efficiently and as a means of allowing Parliament to have a greater say in Executive practices²³ [HR debates, 25 October 1978, pp.2296-7; for similar views see also Senate debates, 1 March 1979, pp.431-5].

22. Reid [1976] argued that the move to 'accountable management' in the public sector was a clever Executive ruse which was designed to reduce, not enhance, the accountability of the Minister. Steps in this strategy were: firstly to denigrate the principle of ministerial responsibility and how it was being practiced, then to find definitions of accountability which did not involve Ministers or Parliament and finally to use a non-elected official, in this case the Auditor-General, to take over the Minister's role to demand accountability [Thynne 1983, p.93].

23. Previous recommendations for a means to check on the efficiency of departments had largely fallen on deaf ears. As early as 1919 one Royal Commission observed that

not only is there no systematic, comprehensive and continuous check upon the economical and efficient working of departments individually by heads of departments, or as a whole ... but this duty is not recognised by these officers as part of their work ... (N)o authority independent of the departments ... has been set up for the purpose of seeing that satisfactory value is obtained for the amounts paid There is as great, if not a greater, need for an auditor of economic efficiency as for and auditor of accuracy and honesty [Royal Commission on Public Expenditure of the Commonwealth of Australia with a view to Efficiency Economies, 1919, p.85].

A number of terms were currently available to describe the performance-type auditing envisaged by the RCAGA, including value-for-money auditing, operational auditing²⁴, comprehensive auditing and management auditing [*Joint Review of Audit Legislation*, 1975, Appendix]. The United States General Accounting Office (GAO) seemed to equate efficiency auditing with management auditing, operational auditing and performance auditing [*Joint Review of Audit Legislation*, 1975, Appendix]. The Commissions' choice of nomenclature for the extended legislated performance audit function reflected the terms used in its Letters of Patent and the terminology used by witnesses and those found in submissions, which consistently echoed the word 'efficiency'. Confusion in terminology, which to some extent still exists, reflected both the infancy of performance auditing in the seventies and the unique requirements of different systems of government²⁵. The term 'efficiency auditing' was adopted by the RCAGA to differentiate the much more extensive and more powerful audit which was envisaged from the project audits claimed to be already being carried out under section 54 of the *Audit Act*. Both efficiency audits and project audits were seen as subsets of the generic term *performance auditing*, although their aims, scope and legislative standing would be very different [see Chapter 6].

The RCAGA proposed that there needed to be two types of efficiency audits: one internal and carried out by the department itself and the other carried out by some external body. It would be the duty of the external body to check that the department had in place procedures to assess the efficiency and effectiveness with which it was using its resources *and* that it was operating efficiently. The reports of only the external review body would be available to Parliament [*RCAGA Report* 1976, pp.49,55].

24. The term operational auditing was first used in the United States by Comptroller General Warren in the 1950's [Pois 1979, p.172].

25. Especially the United States and the General Accounting Office's (GAO) program of performance audits.

This sea-change in accountability modalities as proposed by the RCAGA could not be accomplished with only localised tinkering at the departmental level. For the proposed reforms to be successful the institutional framework in which departments operated would also have to change. Without this it would be very difficult to escape the firm hold which tradition and ingrained practices had on the public service.

Efficiency auditing was only one of a number of recommendations of the RCAGA designed to bring about improved public sector efficiency and accountability. It was not meant to be a stand-alone innovation but to be girded by other administrative reforms [RCAGA, Sir Arthur Tange²⁶, Vol.4, p.171]. Efficiency auditing was to *support* these reforms. Unfortunately for the state auditor, efficiency auditing was to be thrust upon a sceptical and hardened public service without having the benefit of supportive structural reforms in either the departments or the central co-ordinating authorities. Efficiency auditing was orphaned at birth and could expect only a bleak future [see section 5.4.1 below]. To have the opportunity to succeed in efficiency auditing, the state auditor would have to wait until 1983 for the management reforms of the Hawke Labor Government²⁷.

The Fraser Governments were not devoid of public sector reform. However, unlike their successor the Hawke Government, the reforms were confined mostly to the institutional framework of public sector accountability and reducing the size of the public service. Fraser's initiatives did not bring about a change in the dominant culture of the public service [Smith and Weller 1978, p.24]. Thus, the Fraser Government established the House of Representatives Expenditure Committee²⁸ in April 1976, encouraged the development of Senate Estimates committees which had been

26. Permanent Head of the Department of Defence.

27. The Labor Party broadcast the broad thrust of its reforms in two White Papers: *Reforming the Australian Public Sector* (1983) and *Budget Reform* (1984).

28. Frank Crean (Labor) described the Prime Minister as having a fetish about reducing expenditure and that establishing the Expenditure Committee was designed to "add virtue", to the Prime Minister [HR debates, 29 April 1976, p.1768].

borrowed from Britain in 1970, oversaw the evolution of the Senate Finance and Government Operations Committee and created the new Department of Finance out of the Treasury in 1976. The Government's central budgetary and financial systems were reformed, including an increase in the frequency of reviews of on-going programs. Guidelines for the content and form of financial statements of Commonwealth undertakings were issued by DOF and the Auditor-General. There were also many reforms to the conditions of service of the public service [Reid Committee 1983, pp.171-2; Senate debates, 9 December 1976, pp.2293-5]. The *Public Accounts Committee Act* was amended to allow the JCPA to examine on their own initiative government bodies other than departments without the need to be prompted to do so by comments made in the Auditor-General's reports. The PAC was now also permitted to examine special audit reports and not just the annual reports of the Auditor-General [McLeay, HR debates, 8 November 1979, p.2815 and Martin, 15 November 1979, p.3123]. These reforms were only the vanguard of a change in governance, not the main body.

Having determined the need for some form of efficiency auditing, the RCAGA then had to suggest the most appropriate agency in which this new function should be located. In the next section the factors influencing the Commission's recommendation in favour of the state auditor are examined.

5.3 RESPONSIBILITY FOR EFFICIENCY AUDITS

5.3.1 The Treasury and the Public Service Board as Contenders for Efficiency Auditing

Unlike Britain and Canada, it was not a foregone conclusion in Australia that efficiency auditing would be the responsibility of the state auditor. A number of possible agencies were considered by the RCAGA to conduct efficiency audits. These included: the Treasury; PM&C; PSB; setting up a new body, possibly called the Office of Policy

Analysis and Administrative Management²⁹ and the Auditor-General of the Commonwealth. The Treasury had not advocated in its submissions that it be given responsibility for efficiency assessment and the RCAGA rejected the Treasury as unsuitable for this role. They saw the Treasury as traditionally having no involvement in the outcome of programs or management of program costs. Treasury's responsibilities centred on macroeconomic planning and budgeting.

The PSB was originally highly favoured to take on any expanded performance review functions proposed by the RCAGA because of its existing powers under the *Public Service Act* to monitor and encourage efficiency. In its submissions to the RCAGA the PSB, however, disavowed any desire to be responsible for efficiency audits. They argued, and the RCAGA agreed, that their involvement with performance appraisal in the departments had been in the nature of management consulting, as the title Joint Management Reviews (JMR) implied. When reviewing a department's performance the PSB worked with departmental managers as part of a team with all findings confidential between the PSB and the department [*RCAGA Report* 1976, s.3.6.7, p.47]. Indeed, so closely was this confidentiality guarded that it was with some difficulty that the RCAGA obtained access to previous PSB management reports. Given the nature of their relationship with departments, the PSB therefore argued it would be inconsistent with what they sought to achieve if they were required to take on the role of external auditor, instead of valued adviser, and all the negative connotations it seemed to imply³⁰ [*RCAGA Report* 1976, pp.46-48]. The Board emphasised that there was an important distinction between its management advisory role and efficiency auditing by an external body and that this distinction should be preserved.

29. See *RCAGA Report*, 1976, p.47 for reasons for the rejection of this alternative. See also the Working Party's objections [*Working Party Report*, 1977, s.72, p.33].

30. Support for the Board's position was later given in Parliament [Porter, HR debates, 28 April 1977, p.1380].

The PSB's case was sympathetically received by the RCAGA who saw great merit in PSB efforts to "stimulate and assist departments to achieve greater efficiency" which depended "upon the maintenance of harmonious working relations between the Board and departments" [*RCAGA Report 1976*, s.3.6.9, p.47]. In these circumstances "harmony would be difficult to maintain if the Board were responsible for reports *embodying serious criticism* of departmental performance- particularly if these reports were to reach a wider audience" (emphasis added) [*RCAGA Report 1976*, s.3.6.9, pp.47-48]. PSB qualifications for efficiency auditing were further questioned when the RCAGA expressed its disappointment with the narrow scope of the management-type audits or reviews conducted by the PSB [*RCAGA Report 1976*, s.3.6.8, p.47]. In the view of the RCAGA efficiency auditing, if it was to accomplish anything worthwhile, would have to be concerned with broader issues [*RCAGA Report 1976*, s.3.6.7, p.47]. The Commission also expressed its disappointment that the PSB had not used its powers under sections 17 and 29 of the *Public Service Act* actively to pursue management improvements, although the Commission did recognise that some of the fault lay with the lack of sustained interest by Parliament [*RCAGA Report 1976*, p.40]³¹.

In a memorandum sent by the PSB to the Commission in September 1975 it advised that

in view of the frequently close relationship between financial management and other management issues, the information flow which already exists between departments and the Auditor-General's Office, and *the accepted independence and impartiality of the Auditor-General's role*, the Board considers that placement of the efficiency auditing function with the Auditor-General would be most appropriate (emphasis added) [quoted in Nethercote 1977, p.112].

31. Deficiencies in the Board's management improvement role had been brought to Parliament's attention in 1974 by Phillip Lynch (Coalition) [HR debates, 19 March 1974].

Almost by default it appeared that the Auditor-General would be asked to conduct efficiency audits. At the time Auditor-General Steele Craik³² wryly observed, and one suspects tongue-in-cheek given the trouble to which his office went to convince the Commission of their bone fides for efficiency auditing, that as he appeared to be the only officer who was "silly enough" to indicate an interest in efficiency auditing it had fallen to him [JCPA Conference 1977, p.38]³³.

5.3.2 The Auditor-General's Case

The RCAGA clearly saw that efficiency auditing could be heavily tainted by fault finding [RCAGA Report 1976, s.3.6.9, p.48] and could, as a consequence, be unpopular and damaging to good relations between auditee and auditor. Unlike the PSB, this was not seen as problematic for the Auditor-General and his Office. Already the AAO occupied a position which was external to all government agencies and it was, given the nature of its work, accustomed to a degree of unpopularity. There was always, as a consequence, a strong element of coercion in the dealings between the Auditor-General and auditees.

As an agent of Parliament, although not an *officer* of Parliament, it was Parliament which was the Auditor-General's client and not the auditee [see Monaghan 1985c, pp.9-19]. This is the major distinguishing feature between private and public sector audit as noted in chapter 2: in the former case the auditee can select the auditor whereas in the public sector, at the time of the RCAGA, most agencies had to accept the AAO as the legitimate auditor [see *Working Party*, pp.24-30]³⁴. In the private sector the firm is both the object of the audit as well as the client, a well known source

32. Auditor-General 1973 to 1981. Like many of his predecessors his public service career included time at the Treasury, in Steele Craik's case 1941-73. Others with Treasury experience included A.C. Joyce, Auditor-General 1946-51, C. Newman, 1955-61 and J. Brophy, 1951-55

33. In a paper delivered on 17 April 1977 to the Royal Institute of Public Administration in Canberra, Steele-Craik alleged he had "not actively" sought the role of efficiency auditor but instead "would be prepared to undertake it if requested" [p.14].

34. This is not the case now. The *Audit Act 1901* now allows public sector companies and statutory authorities to choose their auditor, although the A-G still retains the right to examine the audited accounts (s.63MC). Departments must still be audited by the A-G.

of potential conflict of interest and pressure on the auditors' independence. By prescribing the Auditor-General as the efficiency auditor, Parliament could be more certain that the Auditor-General would not be unduly affected by the interference of auditees. Fitting efficiency auditing with current AAO functions, therefore, seemed to present no major difficulties and it also coincided with the wishes of the Auditor-General at the time, Don Steele Craik.

Steele Craik made several written submissions to the RCAGA which together argued that the powers and functions of the Auditor-General needed to be reviewed and, in particular, that the Auditor-General should be given a wider, performance orientated mandate [AAO, *Submission 1 to the RCAGA*, 1974, p.4]. He reminded the RCAGA that the *Audit Act* 1901 was first and foremost meant to be a check on the regularity and legality of public service expenditures [see 5.2.1 above]³⁵. One submission pointed out that, while the complexity of government had changed dramatically since the original *Audit Act* was passed in 1901, very little had been attempted to ensure that the powers of the Auditor-General were also revised to reflect the changed circumstances of the late 20th century. In addition, no significant effort had been made to learn from the performance audit experience of other countries which had recently expanded the responsibilities of their central audit offices [RCAGA, Vol.4, Appendix 4F, pp.155,159]. Particular reference was made to the experience of the GAO in the United States [RCAGA, Vol.4, Appendix 4F, p.155]. Without a broader role for Australia's Auditor-General Steele Craik argued that it would not be possible to

35. Along the way these central aims were also able to satisfy Victorian morality and provide a means of detecting fraud, however insignificant the amount, and encourage restraint in spending [Royal Commission on Navy and Defence Administration 1918, *Second Progress Report*, p.10]. Especially in the early decades of this century the reports of the Auditor-General on the accounts of the Treasurer and Departments are replete with examples of the Auditor-General bringing to light frauds and abuses of trust involving very small amounts most of which were penalised by dismissal, fines or imprisonment. See the Second Annual Report of the Auditor-General for the year Ended 30 June 1903, p.130,131. One particularly poignant entry refers to M.Sutherland, Postmistress, Riddell's Creek where L.18.1.4 was in question. The officer was charged but had "since been committed to an asylum for the insane" [p.31]. Further examples of the auditor's zealous enforcement of his mandate can be found in the Ninth Annual Report in 1910, p.1231 and the Tenth Annual Report in 1911. In the latter W.H.Smith was dismissed over L.1.3.6 [p.882].

ensure that the skills and resources available in the Auditor-General's office are utilised to the best advantage in the interests of Parliamentary scrutiny and control of government financial administration [RCAGA, Vol.4, Appendix 4F, p.155].

He therefore urged that

there is a pressing need to review the statutory powers and functions of the Auditor-General with the object of removing anachronistic limitations and authorising him, at a minimum, to evaluate whether expenditure although regular in every respect, is wasteful or non-productive [RCAGA Report 1976, p.375].

In the absence of state audit reform Steele Craik contended that the *Audit Act 1901* would remain an essentially 19th century document attempting to cope with 20th century problems. He called for a "fresh approach to the whole question of the Auditor-General's role" [AAO, *Submission 1 to the RCAGA*, 1974, p.4].

A very persuasive argument of Steele Craik in his advocacy of efficiency auditing going to the Auditor-General was the high degree of commonality in skills required by both efficiency audits and compliance audits. He indicated to the Commission that efficiency auditing could be seen as a "natural extension" of his existing financial auditing [Steele Craik, JCPA Conference 1977, p.14]. The Auditor-General was

in a unique position to assist in the process of parliamentary scrutiny of the financial and administrative efficiency of the administration, to hold it accountable for the regularity, efficiency and effectiveness of its use of resources, and thereby, to promote improved public administration [Steele Craik 1978, p.3]

The Auditor-General's Office already had a good start in expertise relevant to efficiency auditing, although he did concede that the skills needed for efficiency auditing required more than just a good knowledge of accounting [RCAGA, Vol.4, Appendix 4F, p.159]. Both of these considerations were later heavily to influence the organisation of efficiency auditing. Steele Craik also alluded to the benefits which

would be gained by having compliance and efficiency auditors closely associated; the findings of both groups of auditors would help each other, thus ensuring a more thorough and searching audit process. In addition to giving the state auditor a more "meaningful statutory role" Steele Craik believed that broadening his role would add to the job satisfaction of his staff and thereby make it easier to retain staff, the perennial worry of state auditors [AAO, *Submission 4 to RCAGA*, 1974, p.5].

The Auditor-General pointed to the success he had already achieved since the early seventies with limited scale 'efficiency type' audits, referred to within the AAO as 'project audits' or 'Planned Appraisal Audits'³⁶, on a limited scale taking their authority from sections 51 and 54 of the *Audit Act* [see Comments by Treasury on the Auditor-General's Submissions, RCAGA, Appendix, Vol.4, p.168; see also Monaghan 1985a,b,c, Hill 1986, p.58]. Section 54 was a general clause which allowed the Auditor-General to

recommend any plans or suggestions for the better collection and payment of the public moneys and any improvement in the mode of keeping the public accounts and generally report upon all matters relating to the public accounts public moneys and stores ...

Section 51³⁷ also permitted, or more particularly required, the Auditor-General to

include in any report made by him under this Act such information as he thinks desirable in relation to audits, examinations and inspections carried out by him ...

These sections were taken as permitting specific inquiries directed at matters of economy and efficiency, rather than leave these as incidental findings in routine financial audits .

36. Planned Appraisal Audits were defined by the Auditor-General as

a detailed examination of selected financial operations, project accounting or functional activities of a department or statutory authority with the object of evaluating the overall system of internal control and forming a firm opinion as to the efficacy of the operations, quality of the accounting and the effectiveness of related administrative decisions from the financial standpoint [Joint Review of Audit Legislation, Appendix, 1975].

Steele Craik later admitted that Planned Appraisal Auditing introduced in 1965 had experienced difficulties stemming from a "lack of understanding of concepts" both within and outside the AAO [October 1980b, p.17].

37. Inserted in 1948.

Both sections 51 and 54 of the Act were intended to reinforce the Auditor-General's responsibility to disclose to Parliament any matters which arose in the normal course of compliance audits which he thought significant [for examples see RCAGA, Vol.4, p.163]³⁸. On one occasion Steele Craik referred to these sections of the *Audit Act* as "dragnet clauses" which allowed the Auditor-General "to penetrate the 'efficiency' area *to some extent*" (emphasis added) [JCPA Conference 1977, p.13]. While the Auditor-General perceived that sections 51 and 54 gave him a legitimate role in performance auditing the legal authority was far too ambiguous for any significant work of this nature [Steele Craik, JCPA Conference, 1977, p.34]. Amendments to the *Audit Act 1901* were needed to clarify and strengthen the rights of the Auditor-General in performance auditing³⁹. In particular, the Auditor-General's ability to *report* his findings on waste and inefficiency to Parliament needed to be given legislative recognition. Most of these findings under the present arrangements were provided only to Ministers and the agency concerned, not to Parliament [*Working Party 1977*, p.26].

Further support for the Auditor-General assuming the role of efficiency auditor came from academics who argued that there was an urgent need to recognise that the traditional compliance audit was "not a sufficient answer to the problem of waste and inefficiency in modern administration" [RCAGA, Vol.1, p.57; Spann, "Improving Efficiency", RCAGA, Vol.4, p.170]⁴⁰. Reform of the *Audit Act* was urgently needed and the Auditor-General was best placed to take on responsibilities for auditing Executive efficiency [Emy, RCAGA, Vol.1, Appendix 1.B, p.57].

38. The precedent for this had been set long before in the latter decades of the 19th century in Britain when the Public Accounts Committee, on numerous occasions, supported the Comptroller and Auditor General in his observations about waste and inefficiency.

39. At a conference of Public Accounts Committees in 1977 Steele Craik disclosed that 10% of his resources were occupied with operational audits or project audits. He expected that this would increase to 20% in 1978 [JCPA Conference, p.34].

40. The US Comptroller General, Elmer Staats, came to Australia to give his support to the Auditor General [ASA 1977; *Canberra Times*, 22 February 1977].

The Auditor-General was not without his detractors [see for example Hurford, HR debates, 19 May 1976, p.2218]. As could be expected, senior public servants were not always fulsome in their praise of his accomplishments. Sir Arthur Tange was especially critical of the way auditors took the higher moral ground and were able to criticise with the benefit of hindsight. Accordingly, he was suspicious of the ability of efficiency auditors from the AAO to reconstruct

the circumstances in which managerial decisions have been made against the unforeseeable future ... Auditors tend to moralize about the departmental decisions when circumstances later turn out badly ... but contribute nothing to the decision making process [1982, p.9].

Outside the RCAGA some observers voiced their concerns that the state auditor's independence might be compromised by the inclusion of efficiency auditing in his mandate [Professor Geoffrey Sawyer, *Canberra Times*, 3 August 1976]. In general, most of the Auditor-General's critics bided their time until he was most vulnerable at the time the first efficiency audits were completed⁴¹.

In view of the reluctance of the PSB to take on the responsibility for efficiency auditing and the audit experience of the state auditor, the RCAGA recommended that if efficiency auditing was approved by the Government that it be given to the Auditor-General [Appendix, Vol.4, p.160]. The RCAGA judged that:

it would be most appropriate for the role of the Auditor-General to be extended to incorporate efficiency auditing [Recommendation 7, *RCAGA Report* 1976, s.3.6.17, p.49].

The role of the Auditor-General as an officer of Parliament should be clarified and strengthened [Recommendation 8, *RCAGA Report* 1976, s.3.6.20, p.50].

To implement efficiency auditing in the Auditor-General's office the RCAGA suggested that:

(1) the powers of the Auditor-General be strengthened with appropriate legislation [*RCAGA Report* 1976, s.11.4.9]

41. See the following chapter.

- (2) additional staff be recruited [*RCAGA Report* 1976, s.11.4.10]
- (3) staff with specialist skills should be recruited [*RCAGA Report* 1976, s.11.4.10]
- (4) implementation should proceed carefully and without undue haste [*RCAGA Report* 1976, s.11.4.9].

As part of the recommendations the need for the Auditor-General formally to report to Parliament on the results of an efficiency audit was emphasised as were the limits to the conduct of these audits. The RCAGA expressed its concern that efficiency audits should not trespass on matters of government policy; it was no part of an efficiency auditor's responsibility to comment on the appropriateness of government policy or to suggest changes. To do so would take the efficiency auditor into the realms of reviewing program effectiveness and call for "a political judgement in which, in the Commission's view, the Auditor-General should not be involved" [*RCAGA Report* 1976, s.3.6.18, p.49 also s.11.4.4, p.376]. Effectiveness reviews were seen by the RCAGA as more appropriate to the work of the Department of the Prime Minister and Cabinet [*RCAGA Report* 1976, s.3.6.19, p.49].

It remained to be seen the extent to which the Fraser Government would agree to the RCAGA's recommendations not only for efficiency auditing but also those affecting the broader public service culture. It is the task of section 5.4 to follow the Fraser Government's decision to accept the efficiency auditing proposals of the RCAGA and to trace the passage of the legislation to enable their implementation. The most important feature of the Fraser Government's reactions is shown in section 5.4.2 to be its insistence that state audit independence would retain its then present form.

5.4 THE AUDIT AMENDMENT BILL AND STATE AUDIT INDEPENDENCE

5.4.1 The Overture to Reform

While the agenda of the Fraser Government differed significantly from its predecessor [see section 5.2.2], there was still a core of concern, which could not be escaped in a slowing economy, for efficient government. This did not see, however, all the

recommendations of the RCAGA implemented [*The Canberra Times*, 22 February 1977 and 30 July 1977]. A notable exception to the Coalition's caution was its announcement that, consistent with its determination to minimise waste and to raise the efficiency of the public service, it would seriously consider the RCAGA's efficiency auditing recommendations [Fraser, HR debates, 16 March 1976, 7 December 1976, p.3432, 9 December 1976, p.3590; Lynch, HR debates, 20 October 1976, p.2078]⁴².

As a former Secretary of the JCPA, Michael Talberg has observed that Fraser had little interest in RCAGA recommendations, preferring to leave things alone. After all, the present system had served Coalition Governments well. According to Talberg it was David Connolly, Chairman of the JCPA, who provided the necessary push for the Auditor-General to be given efficiency auditing [Interview with Talberg, 30 May 1991]. Ministers and central co-ordinating departments but especially DOF, according to Malcolm Aldons, a former Secretary to the Expenditure Committee, were very suspicious of efficiency auditing [Interview with Aldons, 16 August 1991].

In early 1977 the Fraser government convened a Working Party of Officials drawn from the PSB, PM&C and DOF to evaluate the efficiency audit recommendations of the RCAGA. Their report, tabled in November 1977, concluded in favour of amending

42. One of the earliest indications of the new government's determination to improve efficiency in the public sector was the appointment of the Bland Committee [Administrative Review Committee with Sir Henry Bland as Chairman]. The *National Times* reported that the announcement of this committee increased the pessimism of the members of the RCAGA that their recommendations would be accepted, especially as they saw that Bland's recent inquiry into the Victorian public service showed him to have very conservative views about the place of the public service [3 May 1976]. The Committee was

to review government expenditure, and recommend on ways to eliminate waste and duplications within and between government departments and between commonwealth and state government departments.... It will advise on activities whose benefits do not appear commensurate with their costs, and on changes in arrangements that might be made to produce economies

In comparison to the RCAGA the brief of the Bland Committee was much more specific and directed at short term gains. It is difficult to determine the influence of the results of the Committee because no report was released. Opposition spokesman Tom Uren described the Committee as "a captive committee of sycophants whose ... authority will be invoked whenever a cut in Government spending is contemplated" [Press Statement, 2 August 1976]. For more on the Bland Committee see Holmes 1978, pp.95-110 and Schaffer and Hawker 1978, pp.39-40].

the *Audit Act 1901* to give the Auditor-General explicit legislated authority to conduct efficiency audits. The *Working Party* recommended that it be made a condition of the assumption of efficiency auditing by the Auditor-General that the performance of the new function would be reviewed after two years by an interdepartmental committee drawn from the central coordinating departments of government [Recommendation 16, *Working Party*, p.X]. The apparent reason for this review was to ensure that the Auditor-General was being faithful to the intentions of the Government when it amended the audit legislation, in particular that the auditors were not encroaching on matters of policy.

The report of the Working Party of Officials was received favourably by the Government which had already pre-empted the conclusions by announcing in July 1977 that the Auditor-General would be given responsibility for conducting efficiency audits on behalf of Parliament. The Government accepted that audit needed to be responsive to the pressures arising from large government bureaucracies and mushrooming expenditure and community concern about archaic provisions in the *Audit Act* [Connolly, HR debates, 25 October 1978, p.2299; *The Age*, 26 February 1975; *Financial Review*, 22 January 1976]. The Minister for Education, Senator Carrick, saw the growth in Government transactions⁴³ and the changes in audit methodology, both in Australia and overseas, as providing important motives for audit reform [Senate debates, 27 February 1979, p.296; see also Mazey 1978, p.4 and Cosgrove⁴⁴ 1980, p.2].

An alternative explanation for state audit reform relies upon the relationship between political competition and the level of accounting and audit disclosure in the public sector. Mostly it is assumed that governments reform present accounting and audit

43.

	1972-3	1973-4	1974-5	1975-6	1976-7
GDP	\$m41,962	50,805	60,149	70,825	81,531

[Australian Budget Paper No.9, 1977-78, p.13].

44. Mazey and Cosgrove were section heads in the Efficiency Audit Division of the AAO.

provisions to improve the flow of information about Executive actions and policies in response to pressures from the electorate. This explanation has relied upon an agency-principal relationship which is purported to exist between political constituents and their elected representatives. It is analogous to the manager- shareholder relationships which are seen as the foundation of accountable management in the private sector. This characterisation of the electorate as a pressure group which demands to be kept informed and which knows about that which they require to be informed has been questioned for some time. In place of the rational constituent instead the voters are seen as being "rationally ignorant" [Downs 1957, pp.207-219, as quoted in Baber 1990, p.58]. If this is the case, then changes in accounting and auditing disclosures and technologies might not be brought about in response to perceived information demands from the electorate.

In a recent study, Baber [1990] has suggested that the level of political competition can have a marked effect on the form and level of accounting and auditing disclosures in the public sector. Using a game theory approach, Baber saw the main role of public sector accounting and auditing information as informing constituents about the accomplishments of political incumbents prior to elections to enable them to compare pre and post electoral programs. When political competition was high the study found that there was greater incentive to disclose information, that is, there was a more pronounced tendency to use accounting and auditing practices. This will occur, according to Baber, even in the absence of demand from constituents for accounting and auditing information. In times of low political competition there was little incentive to disclose accounting and auditing information for this would have little impact on electoral outcomes [pp.58-59].

Baber's study also highlighted the differences in the effect of competition on the level of disclosure between the private sector and the public sector. In product markets where individual consumers are acting individually it is important for entrepreneurs to

align actions with consumer interests. In politics, the individual matters little; it is coalitions of interest groups and majorities which count. When political competition is low, disclosure to these groups was shown to affect neither payoffs nor outcomes [p.68]. The results suggest

that incentives to implement ... (audit) technologies that facilitate the disclosure of the actions of elected officials are greater for high than for low (political) competition markets [1990, p.71].

The seventies were one of the most politically competitive periods in Australia's history, placing at the same time state audit in the crucible of change.

The *Audit Amendment Bill* was introduced in Parliament in November 1978 to give effect to the Working Party's proposed alterations to the Auditor-General's responsibilities⁴⁵. This Bill followed an earlier amendment attempt in April 1976 which was composed entirely of technical adjustments to the existing Act as derived from the findings of the Joint Review of Audit Legislation appointed by the Whitlam Government in 1975⁴⁶. There was no intention in the first Amendment Bill to alter any of the powers or responsibilities of the Auditor-General or to consider this until the RCAGA had finalised its report [Dobie, HR debates, 19 May 1976, p.2219]. The Bill was in the process of passing through the Senate when Parliament was prorogued in early 1977⁴⁷.

Subsequent to Parliament re-convening, the Government decided not to proceed any further with the Amendment Bill at that time. In view of the recommendations in the RCAGA's report it wanted to take the opportunity to consider other amendments [Carrick, Senate debates, 27 February 1979, p.296]. After the revised Bill was finally

45. Queensland was the first Australian Government to introduce a form of efficiency auditing with its *Financial Administration and Audit Act*. The Queensland legislation first entered Parliament in November 1976, finally becoming law in October 1978 [JCPA Conference 1977, p.16].

46. The review was conducted by the Treasury and the AAO. Part of the terms of reference of the Review Committee was to consider whether there should be two separate Acts: one for audit and one for Financial Management. The Committee supported one Act, unlike the Wilson Committee in Canada [Wilson Committee's Report 1975, section D4].

47. The first and second readings in the Senate were on 20 May 1976 [Senate debates, p.1818].

introduced into the House of Representatives on 25 October 1978 [First and Second reading] it was given to the Legislation Committee⁴⁸ before moving to the Senate in February of the following year. This time the audit amendments had two central elements. Firstly, they performed a long overdue housekeeping role where a number of technical anomalies and inconsistencies which had accumulated since 1901 needed rectifying. Secondly, the amendments gave statutory authority for the state auditor to conduct *efficiency audits* in, with some limited exceptions, all Commonwealth Government agencies [*Audit Act*, Part VI, Division 2]. Although efficiency was not defined, efficiency auditing was described as

(a) an examination of the *functions* performed by, and operations carried on by, ... a body or persons for the purpose of forming an opinion concerning the extent to which those operations are being carried on in an economical and efficient manner; and

(b) an examination of the *procedures* that are followed by ... (a) body or person for reviewing operations [Section 2, part (4) in the final Act].

Debate in the Legislation Committee was dominated by two aspects of the proposed changes: provisions governing the reporting of the Auditor-General's efficiency audit findings and the Government's intention under sub-section (2) of section 48(A) of the Act to exclude some agencies from efficiency auditing and to restrict access to the efficiency audit reports of others. While the Government

recognises the importance of maintaining the traditional independence of that Office ... it takes the view that because efficiency auditing breaks such new ground there is a need for procedures to restrict the publication of information ... if it were against the public interest [Street⁴⁹, HR debates, 7 November 1977, p.2966]

Following prompts contained in the RCAGA's Report, Opposition members on the Committee protested that, apart from reasons of national security, all Government

48. On 14 November.

49. Minister for Employment and Industrial Relations.

organisations should be susceptible to efficiency audits by the state auditor⁵⁰. They were especially worried that the proposed clause dealing with exclusions gave the Government the ability to determine additional exemptions over and above those listed in the Amendment Bill⁵¹. Former Prime Minister and Treasurer Sir William McMahon (Liberal) agreed that it was anomalous that there should be exclusions and proposed that sub-section (2) be deleted. This received the support of the Committee and the amendment was carried [15 November 1978, pp.14-16], finally receiving the Government's approval [Robertson, HR debates, 2 February 1979, pp.187-9]⁵². As a result, with few exceptions effectively all government agencies *could be* the targets of an efficiency audit by the state auditor.

More contentious were the clauses of the Bill dealing with reports of efficiency audits. As the Bill stood when it reached the Legislation Committee there was no mandatory requirement that Parliament had to be fully informed of all efficiency audit findings. Under section 12(2)(a) of the Bill⁵³ if in the course of his normal financial audit a matter of "sufficient importance" came to the attention of the Auditor-General he was required to report this to the Minister of Finance. A similar requirement was imposed on the Auditor-General in the case of efficiency audits except that in this case he would also have to communicate his concerns to the Prime Minister and the PSB. Willis wanted the Legislation Committee to insist that if a matter was so important as to require the attention of the Prime Minister then Parliament also should be informed [Legislation Committee, p.18]. Similar concerns were later expressed by the Opposition in the Senate [Evans, Senate debates, 1 March 1979, p.437]. Speaking in the Committee for the Government, the Minister for Finance, Senator Robinson, argued that Willis' proposed change would "go beyond what has normally been given

50. This had also been the finding of the Working Party of Officials in 1977 [pp.24-25].

51. The Working Party of Officials had allowed for some exemptions to efficiency auditing and public reporting of efficiency audits. They were, however, to be very specific, limited exemptions [*Working Party Report*, 1977, pp.viii-ix, 25-26].

52. The Committee passed 16 amendments to the Bill of which the Government was later to approve 9 [Robertson, HR debates, 2 February 1979, pp.187-9].

53. Section 12(1) and (2) of the Act.

to the Auditor-General. ... You are placing an obligation upon him to do something which until now he has had a discretion to do". He then sought time to get the view of the Auditor-General and the Government as to whether this would "not be placing upon him an obligation which is too demanding and is unreasonable" [p.10].

The Opposition members of the Legislation Committee argued that section 12 of the Bill would encroach on the independence of the Auditor-General. In the case of efficiency audits, by "reporting only to the Prime Minister and the Minister administering the Act and the Public Service Board, he is not remaining aloof ... he is just reporting to the executive arm of government" [Martin, p.10]. Willis endorsed Martin's remarks making the point that

the Auditor-General ... is not there as a servant of the Executive ... If we are going to *preserve the independence* of the Auditor-General from the Executive, then surely we ought to pass this amendment (emphasis added) [p.11].

Government members on the Legislation Committee, apparently determined not to see any improvement in the strength of state audit, retorted that the existing reporting requirements for the Auditor-General placed him "in about the most powerful position that anyone can be" and that any further reporting stipulations would be "superfluous" [McMahon and Stewart, p.11].

The amendment was lost as were similar attempts by the Opposition in relation to the reporting provisions of clause 40 of the Bill [section 48(F) of the *Audit Act*] [Evans, Senate debates, 1 March 1979, p.436]. What was to be section 48(F)(8) stated that

where the Auditor-General prepares a report ... of the results of an efficiency audit of operations of a relevant body-
(a) he *may* include the report in the next report made by him under section 51 that includes his report with respect to the accounts, or financial statements, of that body;

- (b) he *may* include the report in a report made by him, otherwise than under section 51 ... being a report a copy of which is required by an enactment to be laid before each House of the Parliament; or
- (c) he *may* treat the report as a special report and transmit signed copies of the report to each House of the Parliament (emphasis added).

These clauses gave the Auditor-General some discretion in the *way* he reported, not whether he reported. Section 48F(1) placed what appeared to be an inescapable condition on the Auditor-General that whenever he carried out an efficiency audit "he shall prepare and sign a report of the results ...". The apparent clarity of this clause was later to be the centrepiece of a major JCPA inquiry in 1986 when Auditor-General Brigden in 1984 refused to publish a report of the very protracted efficiency audit of the counter services of Australia Post⁵⁴.

Despite the requirement of compulsory reporting this was still not enough for the Opposition which wanted all appearances of "may" to be replaced by "shall" to make it unambiguous that the Auditor-General had to report the efficiency audits to Parliament. Evans was concerned that in its original form the Amendment Bill made it possible for "a wilful Executive embarrassed by the disclosures he (the Auditor-General) may well be endeavouring to make, may make it difficult or impossible for him to (report)" [Senate debates, 1 March 1979, p.437]. The proposed amendment was lost.

In addition to individual reports on each efficiency audit, the Auditor-General was also expected to provide Parliament with a general report of all efficiency audits conducted in a particular year [s.48G(2)(a) and (b)] which included a statement for each audit of the costs and expected benefits [s.48G(1)]. In all cases the Auditor-General had to support his conclusions with detailed reasons [s.48F(2)(b)]. Hence, there would be

54. See Chapter 6 for more details on the Australia Post audit. On legal advice from the Attorney General, Brigden argued that the clause applied to efficiency audits which had been satisfactorily completed. If, as in the case of the Post Office audit, an efficiency audit was aborted then he believed that the Auditor-General did not have to report. The Post Office audit was the only efficiency audit started by the EAD which was not completed and it was to be the only occasion that the Auditor-General interpreted s.48F(1) as applying to completed audits.

strong emphasis on evidential support. Before the efficiency audit reports were finalised the auditee was to be given 28 days to reply with the substance of their comments to be incorporated in the efficiency audit report [s.48F(4)(b)]. If he thought appropriate, the Auditor-General could also include recommendations for improvement in his reports [s.48F(2)(c)]. This last feature, which was a particularly noticeable break with past practices, was to lead the Auditor-General into frequent conflict with auditees who professed a far better knowledge of their operations than the second guessing auditors.

The Opposition was also unhappy with the level of discretion allowed the Auditor-General in deciding upon whether to conduct an efficiency audit. Unlike financial audits, efficiency audits would not be carried out in each agency every year. Instead, the *Audit Act* as amended in 1979 stated that the Auditor-General would be empowered to carry out efficiency audits "at such intervals as he thinks fit" [s.48c(1)]. Cairns wanted Parliament to have the power, in a similar fashion to the American Congress, to direct the Auditor-General to carry out efficiency audits. Robinson pointed out to Cairns that his suggestion was contrary to the traditional Westminster role of the state auditor and "touches on the very basis of his relationship with the Parliament and the Executive" [Legislation Committee, 17 November 1978, pp.25,26] whereby the state auditor had complete control, within unavoidable statutory requirements, over his program of work. It was not unusual for the state auditor to be prompted, as opposed to being directed or requested, in his investigations by concern expressed by Parliamentary committees.

The most noticeable feature of the Legislation Committee's discussions, demonstrated in section 5.4.2 below, is the way members of both sides did not see the need to change conditions governing state audit independence to ensure that efficiency auditing had a chance of working.

5.4.2 State Audit Independence and The Amendments to the Audit Act of 1901

Changes to state audit introduced in 1979 were extravagantly praised both in Parliament, including the Opposition, and in the press, thereby raising expectation levels for what was in essence an experiment. Efficiency auditing was characterised as the most significant development in Australian state audit since the original *Audit Act* was passed in 1901 [Watson, Senate debates, 1 March 1979, p.432]. This gave the efficiency auditors an unwanted prominent profile and put them under considerable pressure from the very beginning. In the rush of enthusiasm the pleas of the efficiency auditors for a calm and cautious introduction to efficiency auditing went unheeded [Mazey 1978, p.14].

With the introduction of efficiency auditing also came the opportunity to extend the state auditor's authority to include statutory authorities. The original intent of the *Audit Act* was to limit the state auditor to the Consolidated Revenue Fund, the Loan Fund and the Trust Fund [see s.50(1)(2), Part VII, Part IX]. The accounts of statutory authorities were outside the compass of the *Audit Act*. For the state auditor to have access to the accounts of statutory authorities and government owned companies there had to be special provision to cover this in the enabling act of these bodies [RCAGA, Vol.4, Appendix 4.F, p.158]. The RCAGA was concerned that the ability of statutory authorities and companies to escape the state auditor's examination by not being covered by the *Audit Act* could be abused [RCAGA Report 1976, p.90]. Parliament and the wider community had expressed similar concerns about the proliferation of these bodies and the need for measures to ensure that they were made to be accountable to Parliament⁵⁵ [Press Release by Senator Rae⁵⁶, 7 February 1979; Senate debates, 6 October 1977, p.1206-9; *Courier Mail*, 8 February 1979; *Sydney Morning Herald*, 9 February 1979; *Financial Review*, 15 February 1979].

55. The Management Advisory Board Task Force in 1992 explained that the use of statutory authorities had been a marked feature of Australian Westminster Government since the 19th century [Task Force Report, p.40].

56. Chairman of the Senate Committee on Finance and Government Operations.

The amendments to the *1901 Audit Act* were characterised as major reforms to state audit and, in the case of efficiency auditing, as introducing constitutional innovations [Emy, RCAGA, Vol.1, Appendix 1.B, p.58]. Whereas previous alterations to the *Audit Act* were more in the way of running adjustments, the 1979 amendments were seen as ushering in a new era of audit which would contribute towards the foundation of more efficient, more accountable and more responsive government.

Examination of the amendments and the discussions in Parliament at the time, however, reveal that the amendments did very little to change the status or independence of state audit. Government comments during the debate in the Legislation Committee over the reporting provisions of efficiency auditing established that the Executive had no intention of allowing efficiency auditing to be the means whereby Parliament could release its previously tethered financial watch-dogs so they could roam at will, intimidating and attacking the Executive [see later comments of the Expenditure Committee, Minutes of Evidence, *Review of Public Sector Efficiency Review Mechanisms*, 1985, p.300]. The amendments were not designed to alter the fundamental characteristics of the constitutional position of state audit, in particular its independence. The amendments did bring about significant changes to the *tasks* expected of state audit but this should not be mistaken as constituting fundamental reform to state audit. Requiring the state auditor to do different things did not in any way change the fundamental characteristics of the Office. Instead, the new requirements caused the indefinite postponement of reforms to conditions affecting the independence of state audit similar to those introduced in Canada in 1977 and in Britain in 1983 by satiating the more insistent reform demands. Also, preoccupation with the challenges associated with the implementation of efficiency auditing diverted attention from fundamental state audit reforms which would have enhanced audit independence.

State audit *reform* is not constituted by getting the state auditor to do more or to do different things but by the degree of control and powers it is given to carry out its functions. This was recognised by both Canada and Britain and towards the end of World War I by the *Royal Commission on Navy and Defence Administration* [Second Progress Report, 14 February 1918, *Commonwealth Parliamentary Papers*, No.42 of 1917-18, para.29]. It recommended to the Government that: the Auditor-General should be able to determine the scope of his audit; a separate department be created for the state auditor and that his staff be exempt from the *Public Service Act*:

one of the main intentions of the Act (1901) is to free the Auditor-General from political control and influence, and it will be recognised that such freedom is essential if he is to be relied upon to carry out his very onerous duties fearlessly and effectively. We consider, however, that this freedom is more imaginary than real ... (A)lthough he, in his own person, is freed from political control ... he is dependent upon the Permanent Head of the Prime Minister's department and the Commonwealth Public Service Commission to obtain the staff necessary [Royal Commission on Navy and Defence Administration, 1918, *Second Progress Report*, p.9].

The then Auditor-General responded enthusiastically to these suggestions as outlined in a letter to the Prime Minister [4 May 1918]⁵⁷. Control of his staff appointments was especially attractive to the Auditor-General. Ultimately, the decision not to enhance the status and role of the state auditor was heavily influenced by the objections of the Treasury. They argued that the state auditor should have no more authority over his staff than any comparable officer. To do otherwise would be "antagonistic to responsible government" by subverting the constitutional principle of ministerial responsibility. They sought to put an end to the matter by concluding that

the Auditor-General has been placed by the *Audit Act* in a very strong position, and his right to report at any time direct to Parliament is a sufficient safeguard against undue interference. *Greater power seems*

57. Israel also took the opportunity in his letter to the Prime Minister on 9 May 1918 to seek a pay rise. He informed the Prime Minister that his pay had not been changed since 1901 and as a result he was in the anomalous position of being paid less than some of his staff.

neither necessary nor desirable (emphasis added) [Second Special Report of the Auditor General, 1918, p.895-6]⁵⁸.

The Treasury's arguments thereby clarified the conditions which would constitute the meaning of independence for state audit. Treasury resistance to any move away from what were British interpretations of state audit independence kept state audit controlled, limited and an appurtenance in public administration.

During the course of debate on the Audit Amendment Bill in 1978-9 the need to enhance the independence of state audit did not arise in the House of Representatives, the Senate or the Legislation Committee. Instead, the emphasis was on *preserving* and perpetuating the level of independence which the Auditor-General had already, not the *enhancement* of his Office's independence [Lusher, HR debates, 25 October 1978, pp.2309-10; Evans, Senate debates, 1 March 1979, pp.435-441]. It seemed to be accepted on both sides of Parliament that the Auditor-General's Office had sufficient independence to carry out its traditional audits and the new efficiency audits⁵⁹. The RCAGA had been concerned that the Auditor-General had sufficient authority over his staffing to carry out efficiency auditing effectively [p.378] but did not take this further and seek to separate the AAO staff from the *Public Service Act* and place them under the state auditor's complete authority. The exception was made in relation to recruiting specialist consultants in which case the Commission recommended that there be the opportunity to move outside the *Public Service Act* should it be necessary [RCAGA Report 1976, p.378].

The Opposition gave notice that it would be closely watching the success of efficiency auditing, especially in light of their suspicions that the Government would not provide adequate resources and the close involvement of the central departments [Willis, HR debates, 25 October 1978, p.2298]. Senator Evans was particularly sceptical about the

58. The PSB also rejected any suggestions that the powers and status of the Auditor-General be enhanced [Letter to the Prime Minister's Department, 6 July 1918].

59. The Audit Amendment Bill returned to the Lower House from the Senate without amendment [HR debates, 1 March 1979, p.567].

enthusiasm of the Government for their new offspring. He was afraid that the resources promised would be

too small to enable a more than derisory approach ... (T)he Opposition would appreciate an assurance from the Government that it is really serious about efficiency auditing; that it will not treat this matter as just another shop window exercise, glittering out front but empty behind [Senate debates, 1 March 1979, p.435].

Unlike the JCPA inquiry ten years later⁶⁰, Parliament's attitude on state audit independence was very complacent and, given the contemporary state audit reforms in Canada, surprisingly so. In addition, in Australia there had not been an extended period of expressed awareness of the deficiencies of state audit independence or agitation for change by the state auditor. The groundswell of dissatisfaction with the position of the state auditor's Office in Canada and Britain had not reached Australian Parliamentary shores, despite warnings from informed observers [Parker 1977, p.63]. As chapters 3 and 4 have demonstrated, a particular conception of what it meant for state audit to be independent was locked, unseen and silent, in the synergistic provisions of audit legislation owing its ancestry to the British *Audit Act of 1866*. As a consequence of an implicit belief that state audit was sufficiently independent of the Executive to conduct efficiency auditing, the 19th century discourse of independence was still able to reach into the 1970's in Australia with impressive effectiveness and anonymity in order to weave its deception. Unlike the state audit reforms in Canada and Britain, the discourse of independence in Australia was not challenged and exposed.

Much of the responsibility for the complacency towards state audit independence must lie with Steele Craik and his expressed satisfaction with the status quo [AAO *Submission 4 to the RCAGA*, 1974, p.3]. In his submissions to the RCAGA the Auditor-General made no effort to seek stronger independence for his Office, nor later

60. Joint Committee of Public Accounts, *Reform of the Australian Audit Office*, 1988. Its report entitled *The Auditor General: Ally of the People and Parliament*, was released in March 1989.

did one of his officers in a lengthy homily to the Office [Kimball, 1977]. Steele Craik's apparent satisfaction with existing institutional arrangements which governed the operations of his office also extended to staffing. In one submission to the RCAGA Steele Craik advised that

Permanent Heads⁶¹ should not be empowered to fix their own establishment ... My experience (is that) ... the Board has shown that it normally accepts a well reasoned and valid approach to increased or improved establishments [quoted in Nethercote 1977, p.100].

Steele Craik is certain that his easy relationship with the central co-ordinating authorities was due to his previous long history as an officer of the Treasury which allowed him to know the right people [Interview, 11 March 1994]. The closest the Auditor-General came to strong words on his independence was when he reminded the RCAGA that

his independence from the Executive and generally from all direction, except through the laws of the land, is an essential ingredient in the effective pursuit of impartial and objective evaluations of government financial activities. Looked idealistically, *however*, ... *(the Auditor-General's) independence from the Executive is not total*(emphasis added) [Submission 4 to the RCAGA, 1974, p.3].

He stressed that he was referring to his Office and that his own independence was guaranteed in the *Audit Act* by his conditions of appointment [s.3], payment [s.4] and dismissal [s.5 and 5A].

The AAO would later have cause to regret Steele Craik's reluctance to demand changes which would have brought with them *substantive independence* for state audit. Looking back on the troubled time the Office experienced in the early eighties, Deputy Auditor General Hill observed that

61. Audit legislation established that the Auditor-General was in effect a Permanent Head.

it is a pity that Auditor-General Craik did not press for a more satisfactory resource allocation while the atmosphere was right ... But Craik was no Macdonell⁶² [Hill 1985, p.8].

In a recent interview with the author, Steele Craik asserted that he had not pushed for more measures to improve the quality of his independence because he believed it could jeopardise his chances of being given efficiency auditing. According to Steele Craik, at no time was he certain that he would be given efficiency auditing. Indeed, the Fraser Government's antipathy towards efficiency auditing made it more likely that no-one would be given this function. Therefore, Steele Craik believed that something now was better than nothing and it left the way open to try later for improving the independence of his Office [Interview, 11 March 1994]. So tenuous were the Auditor-General's prospects of gaining efficiency auditing that ultimately, argues Steele Craik, he was successful largely because of the efforts of one of his senior staff, Allan Harris, who was another former Treasury official. Through his contacts Harris was able to ease the concerns of the appropriate people in the Fraser Government.

After the audit amendments, DOF⁶³ continued to hold financial control over the Office of the state auditor and the Office's budget estimates would continue to be submitted as part of PM&C's⁶⁴ estimates. The PSB retained the right to appoint audit staff and to approve establishment numbers, position classifications and pay scales for the state auditor's Office. Further, the powers of access and coercion given to the state auditor for efficiency auditing were no more than those already available for existing financial audits [compare section 14B with section 48E(3) of the amended *Audit Act*]⁶⁵.

62. A reference to the Canadian Auditor-General and his successful efforts in the 1970's to wrestle a stronger state auditor from the hands of the Executive.

63. Separating the financial management and accountability functions from the Treasury to create DOF in 1976 was viewed with apprehension by reformists. It was seen as a move by the Government to undermine the recommendations of the RCAGA for greater flexibility in management, which were in part to be accomplished by devolution of decision making away from the centre [*Canberra Times*, 22 November 1976].

64. For a history of PM&C see Yeend (Permanent Head of PM&C) 1979, pp.133-4. Its main functions were reported by the Baume Committee in 1979 as "policy advising for the Prime Minister; secretariat services to Cabinet and its Committees; co-ordination of government administration; policy and program development and evaluation ..." [1979, p.41].

65. Confidence in the measures designed to ensure the independence of the state auditor's Office was shaken soon after the Audit Amendment Bill became law by events not in Australia but in Asia. The

By the time it came to implement efficiency auditing it had acquired almost a 'motherhood' status [for example see Johnson's comments, HR debates, 25 October 1978, p.2311]. Most commentators, including of course the RCAGA, saw only positive things coming from a formal, regular program of efficiency auditing in the hands of the Auditor-General. Criticisms were small vessels bobbing in a sea of optimism. Nethercote, a consultant to the RCAGA, was one notable critic of efficiency auditing, arguing that it contradicted most tenets of good management. As an ex post review it would not promote efficiency as effectively as consideration of efficiency when policies and programs were being formulated [Nethercote 1977, p.108; Spann 1984, p.502]. Efficiency auditing would be too little too late. Spann also had considerable reservations about the ability of efficiency auditing to become anything but

Australian Dairy Corporation had established a wholly government owned subsidiary, Asia Dairies Industries, in Hong Kong to be responsible for the marketing and further processing in Asia of Australian dairy products. In late 1979 the Government had put in train a reorganisation of the Corporation. Before its changes were finalised the Government approached the Auditor-General to conduct an audit. In the course of the audit the Auditor-General discovered "irregular payments" which he reported to the Minister for Primary Industries, Peter Nixon. It was alleged that Asia Dairies Industries had paid the airfares to and from Asia of the family of the Australian Dairy Industries Chairman.

Contents of the audit report were leaked to the Opposition which, on the 17 April 1980, asked the Minister to table the report. Nixon argued that as the inquiries of the Auditor-General had not been completed it would not be appropriate to disclose the contents of the report to Parliament [HR debates, 17 April 1980, p.1714]. A week later the Opposition again pursued the matter. On this occasion the Minister attempted to use the Auditor-General as a political shield. He told Parliament that the report was a report to the Minister under section 63P of the Audit Act; it was not a statutory audit report. Consequently, according to advice which he had received from the Auditor-General he advised Parliament that the report did not have to be tabled by the Government [23 April 1980]. The Opposition was quick to call foul play, in the process embroiling the Auditor-General and his Office in a very political dispute. Referring to the evidence of Assistant Auditor-General Taylor before an Expenditure Committee hearing, the Opposition disputed the Minister's statement that the Auditor-General had given any such advice and criticised the Government for jeopardising the position and status of the Auditor-General by attempting to involve him in a political issue.

Senator Georges (Labor) argued that the Government's decision to suppress the audit report placed the Auditor-General in a very difficult situation. As a result, to outside observers

(I)t could be said that in some way the Auditor-General complied with a Government desire to suppress a report. This is a very serious situation ... Is it a cover-up on the part of the Government and had the Government involved the Auditor-General in that cover-up? [HR debates, 23 April 1980, p.1721].

another example of peer-group control, by which some public servants check up on others, with all the latent potentialities ... for mutual bureaucratic accommodation rather than mutual scrutiny and criticism ... (T)he cure may be worse than the disease [1984, p.501,502-3].

While the Fraser Government may have reluctantly acceded to establishing efficiency auditing, it was determined that it would have some control over this new process. Uncertainty surrounding the implications of the new function for existing accountability arrangements particularly strengthened the Executive's resolve to manage its exposure to efficiency auditing. The impact of efficiency auditing on traditional Westminster accountability relationships and the Executive's means of securing for itself a role in efficiency auditing are the subjects of section 5.5. The actions of the Executive are shown to be consistent with the perpetuation of a state audit function which had conditional independence.

5.5 AUDIT AMENDMENTS AND THE RELATIONSHIP BETWEEN THE AUDITOR-GENERAL, DEPARTMENTS AND CENTRAL CO-ORDINATING AUTHORITIES: IMPLICATIONS FOR THE INDEPENDENCE OF THE AUDITOR-GENERAL

5.5.1 Ministerial Responsibility, Accountability of Permanent Heads and the State Auditor

Ministerial responsibility and the anonymity of public servants have long been the basis of accountability⁶⁶ of the Executive to the Parliament in Westminster government, although this relationship has not been immutable, especially throughout the 20th century. To explain changes in the power relationship between the public service bureaucracy and politicians Aberbach [1981] portrayed the process as a series of images:

Image I- Policy/ Administration

66. The RCAGA characterised responsibility and accountability as two closely related concepts. They were

two aspects of the relationship between a person entrusted with a task towards that task and towards the authority which entrusts him with it. Thus, a person is responsible *for* performing the task and *to* the authority which entrusts him with it. If there is a procedure by which he can be called upon to report on and justify his performance ... then he is also accountable"[RCAGA Report 1976, p.11, footnote 2].

Image II- Facts/ Interests

Image III- Energy/ Equilibrium

Image IV- Pure Hybrid [see Thynne and Goldring 1987, pp.13-15].

Image I, which developed in the last half of the 19th century, portrayed administration and policy making as separate activities. Constitutional theory had held that the politician was responsible and accountable for policy while administration was the responsibility of the public servant. Aberbach argues that this form of governance no longer exists in practice in Westminster democracies; if echoes of it do linger it is to perpetuate a myth behind which politicians and bureaucrats can hide. The RCAGA concluded that "the image of the official as the instrument of Ministerial authority, accountable to the Minister alone, working unseen, unheard and anonymous, is now seriously inaccurate" [*RCAGA Report 1976*, p.16].

Image II arose in the first half of the 20th century. It recognises that both the politician and the public servant contribute to policy; the bureaucracy brings the facts and knowledge while the politician brings the necessary political sensitivity to ensure that the policy will "fly" [see section 4.2.2]. Image III can be found in public administration literature in the second half of the 20th century. This image emphasises the political dimension of policy for politicians and bureaucrats alike but

whereas politicians articulate broad, diffuse interests of unorganised individuals, bureaucracies mediate narrow, focussed interests of organised clienteles. ... Politicians seek publicity ... whereas bureaucrats prefer the back room ... and provide policy equilibrium [Aberbach 1981, quoted in Thynne and Goldring 1987, p.14].

Politicians provide the political energy to keep the system operating.

Image IV portrays a public sector where political appointments to senior public service positions have blurred the boundary between, and the roles of, bureaucrats and politicians. The politician and the bureaucrat become united in a common cause. The bureaucrat identifies with the politician who sees administration or management and

policy issues as ineluctable parts of the Minister's role. Image IV is the present and the future.

Traditionally, and consistent with Aberbach's Images I-III, the Minister has been expected to *answer* to Parliament for his own actions and those of his/her department [Baume, Senate debates, 24 March 1977, p.484]⁶⁷. This could take place during Question Time, urgency debates or debates on matters of public importance. The responsibility of the Minister for his personal actions was meant to be absolute: if a minister intentionally or otherwise misled the House or if events in his/her personal life undermined either the Minister's standing or that of the Government then the Minister was expected to forfeit his/her place in the Government. A far less onerous level of responsibility was expected of Ministers for the actions of their department [McMahon, HR, Legislative Committee, 15 November 1978, p.7; JCPA, 1980, Aldred, Member of the Expenditure Committee, Seminar, p.75].

Emy argued in his paper for the RCAGA that the doctrine of ministerial responsibility embodied a peculiar, historically specific set of assumptions about society and the State which were no longer applicable [Emy, RCAGA 1976, Vol.1, Appendix 1B, pp.20]. Whereas a Minister's responsibility for the actions of his/her department might have been taken as absolute in the days when departments were small, where government intervention was minimal and the Minister personally handled all the affairs of his department, in times of 'big' government this was no longer applicable. The size of Departments of State in terms of the number of staff employed, the extent of their responsibilities and the volume of Executive transactions meant it was both unrealistic and inappropriate to hold the Minister responsible for all the actions of his/her department [Steele Craik, RCAGA 1976, Vol.4, Appendix 4F, p.172; Emy, RCAGA 1976, Vol.1, Appendix 1B, pp.21,25].

67. Section 64 of the Australian Constitution establishes the authority for the appointment of a Minister and provides the substantive basis for the principle of ministerial responsibility.

According to the Reid Committee⁶⁸ [1983] this expectation had probably applied in practice for some time, although it had not been widely heralded. They could find not one case in Britain or Australia over a period of 100 years where a Minister had resigned because of maladministration in his/her department [p.33]. Emy notes that Australian Ministers have been especially reluctant to pay the ultimate political price for departmental woes [Emy, RCAGA 1976, Vol.1, Appendix 1B, p.35]. This he sees as a consequence of the formidable solidarity induced by party discipline and the consequent weakness of the House of Representatives to enforce accountability.

As a consequence of the persistence of the doctrine of ministerial responsibility in *form*, but not necessarily *substance*, and public service anonymity an accountability gap was seen to have opened whereby it was difficult to locate responsibility for administrative decisions⁶⁹ [RCAGA Report 1976, p.12]. The Baume Committee [1979] observed that

it was not easy to dismiss the popular notion that there is a vacuum in which no one takes responsibility ... If ministerial accountability has been modified, where has the missing element gone? One possibility is that public servants have been put in a situation in which their level of decision making has increased without a commensurate increase in their level of accountability.

(M)uch responsibility lies with officials. It is important that ... the nature and extent of the responsibility be clarified as far as possible, and procedures established to assess performance and to provide that those responsible at all levels will be held accountable for their performance. Unless this is done no one can justly be regarded as responsible and no one can fairly be called to account for failure or poor performance [pp.6-7].

68. The Committee was announced by the Prime Minister on 23 September 1982. It was to examine, report on and make recommendations in relation to the requirements for an efficient and effective public service in Australia; an in particular to identify the demands and pressures placed upon the public service, and the mechanisms, procedures and management structures which are required to enable the public service to carry out its functions, implement government policy and deliver programmes effectively and efficiently [Terms of Reference, Reid Report, p.1]

69. For example see Aldred, JCPA Seminar 1984, pp.76-77.

Ambiguities between the accountability of the Minister and the Permanent Head had been accentuated by the blurring of the traditional distinction between policy and administration, the pre-eminence of Aberbach's Images III and IV. Increasingly, as shown in chapter 4, public servants were being recognised as significant players in the determination of government policy [Aberbach's Image III] and any attempt to create a boundary between administration and policy was artificial. "Administration", Uhr has commented, "is not policy neutral but is part of the political process" [Management Advisory Board, 1992, p.505]. Within the recommendations of the RCAGA there was an attempt to reconcile the changes which had occurred over an extended period to the principle of ministerial responsibility and public service accountability to ensure that responsibility for performance was clearly located. The Commission recognised that in the presence of reduced (political) responsibility for Ministers there needed to be compensatory adjustments in the public profile and accountability of public servants. Otherwise, responsibility would "fall between the stools of ministerial responsibility and of the practice of management by anonymous officials" [*RCAGA Report* 1976, p.12]. It was no longer acceptable for public servants to cry that they could not be held responsible because of political interference and to cling to the protection afforded by the doctrine of anonymity. According to Coombs,

if there is a single, persistent theme in our report, it is the urgency of achieving a redistribution of power which accords with responsibility and procedures by which those who exercise it can be held accountable [*Financial Review*, 12 August 1976].

Some observers suggested that the indirect accountability of public servants to Parliament through the Minister should be replaced by a direct line of accountability with senior public servants being liable to be called before Parliament or its committees and forced to take responsibility for the operations of their departments⁷⁰. Existing practice made it possible for public servants to be called before parliamentary

70. The vanguard of Aberbach's Image IV had arrived.

committees but when placed in a difficult corner the usual reply was that as the matter before the Committee concerned government policy it was not appropriate for a public servant to give an explanation. An answer should be sought from the responsible Minister. The RCAGA wanted 'accountable management' but warned that any attempts to shift the locus of responsibility and accountability could accentuate any diminution of ministerial responsibility which, in the opinion of the Commission, needed to be emphasised as well [*RCAGA Report 1976*, p.13; see also Reid's comments earlier at footnote 22].

The RCAGA recognised that if public servants were to be given a higher accountability profile then this had to be accompanied by a clarification of responsibility for performance and procedures established to assess performance [*RCAGA Report 1976*, p.13]. The RCAGA noted with some concern that, at the time, there was no formalised assessment of the management performance of Permanent Heads or even a clear picture of their management responsibilities. A lack of concern for performance outcomes related to programs also extended to lower levels of the public service [*RCAGA Report 1976*, p.42].

Sir Arthur Tange was concerned that any change in the balance of accountability between Ministers and bureaucrats which might be contemplated by the RCAGA should explicitly recognise that much of what the public servant could do was constrained by the decisions and directions of Ministers:

To select Permanent Heads for investigation while Ministers remain in the background is an invitation to confusion of responsibility and sometimes ... the truth. Ministers and Permanent Heads ought to go to the witness box together [*RCAGA, Vol.4, Appendix 4F, p.171*].

Public servants and their departments may not be efficient because political intervention and the web of central controls in which they worked would not allow them to be efficient. Numerous controls did not make for a responsive public service. The Chairman of the PSB described rigidities in the public service as "inimical" to

efficiency where the bottom line was more "related to electoral success than to cost effectiveness considerations". Accountability mattered more than efficiency [Cole, Chairman 1978-83, 1988, p.50]⁷¹. For performance evaluation to be fair the relative responsibilities of the public servant and the Minister would need to be clearly identified and separated. Experienced public servants such as Tange knew that this would be, with the present constitutional arrangements, an invidious task with those attempting it unlikely to please any of the parties. He therefore warned, when embarking on efficiency auditing that

(s)ince Ministerial policies and objectives are involved this would be a profound change in the function of this Parliamentary officer (ie. the Auditor-General) and it is questionable whether ... he should enter this field [RCAGA, Vol.4, p.171].

Thus, the audit amendments had an important role in drawing attention to persistent uncertainties as to the nature of the responsibilities and accountability of Permanent Heads.

Much of the criticism for ambiguities surrounding the responsibility and accountability of Permanent Heads derived from section 25(2) of the *Public Service Act*. This section, which had remained virtually unchanged since 1901, established that

The Permanent Head of a Department shall be responsible for its general working and for all the business thereof, and shall advise the Minister in all matters relating to the Department.

This was a general catchall clause meant more to establish the primacy of the Minister in departmental affairs than to clarify the financial and personnel management responsibilities of the Permanent Head. Therefore, it could be conveniently viewed as required, although it was 'generally construed' that Permanent Heads interpreted the section as covering the efficient and economic operations of a department [Connolly,

71. Impediments to efficient operations included: promotion practices which may not lead to the best person being promoted, more likely the longest serving; restrictions on retrenchments which reduced management opportunities to manage staffing levels; the need for even handed treatment of staff and central controls which inhibited the ability to employ qualified staff.

HR debates, 25 October 1978, p.2299]. Despite the ambiguity of the *Public Service Act* neither the *Audit Act* nor Treasury regulations provided any assistance in clarifying the management responsibilities of the Permanent Head⁷² [*RCAGA Report 1976*, pp159-60; *AAO Submission 2 to the RCAGA*, 1974, p.5].

The PSB was also implicated in departmental management. Section 17 of the *Public Service Act* made the PSB responsible for seeing that the operations of a department were carried out efficiently and economically through staffing and organisation changes⁷³. In addition they were to

- (c) exercise critical oversight of the activities, and the methods of conducting ... business
- (d) maintain a comprehensive and continuous system of measuring and checking the economical and efficient working of each Department [section 17(1)(d)]

This did not endow the PSB with executive powers to see that steps were taken to improve departmental performance. The PSB could recommend changes but could not enforce them. Should the Permanent Head not take up the Board's suggestions then the Board was entitled to report its recommendations to the Minister. If he/she followed the same line as the Permanent Head, and the Board felt sufficiently strong about the matter, then the Board could send a report to both Houses of Parliament [section 17(4)]. Apart from this extreme reaction, in practice the Board more often than not would get its own way by being less-than-co-operative when a difficult Department sought additional staff; the Board arguing that the existing staff would suffice if efficiently occupied.

72. The RCAGA suggested that lines of responsibility could be clarified if the Permanent Head was made the "Accounting Officer", as was the case in Britain. The term Accounting Officer referred to one officer, usually the Permanent Head, in a department who was the focus of accountability to the Minister and to Parliament [*RCAGA Report 1976*, p.97]. This was later rejected by the Government.

73. This section has been traced back to the criticisms of the Economies Commission in 1919 [Taylor March, 1981, p.3].

The generality of section 25(2) had the advantage that it could allow the Permanent Head to shift the balance of his/her responsibilities between the department and the Minister as situations warranted and thereby juggle any conflict of loyalties brought about by the Permanent Head looking inwards to the operations of his/her department and looking outwards to the interests of the Minister [Emy, RCAGA, Vol.4, Appendix 1B, p.40; *RCAGA Report* 1976, p.16]⁷⁴. With the move to efficiency auditing and more precise accountability of the public service the flexibility possible under section 25(2) was threatened. Increasingly, a choice would have to be made between ingenuously justifying management practices and outcomes to an external review body, such as the Auditor-General, and remaining silent and loyal to the Minister when decisions ordered by the Minister lead to criticisms of management. Using efficiency audits to strengthen the accountability of public servants for the performance of their departments was severely to test their multiple loyalties.

Efficiency auditing created tensions between Ministers and senior public servants by placing senior management in a position where they were compelled to defend themselves and their department's performance in the face of auditor criticisms. The problem often became 'how to protect oneself' when criticisms stemmed from Ministerial directions and policies and still retain the confidence of the Minister by not politically exposing them and the government. Politicians could say that efficiency auditing would "for the first time enable Ministers ... to assess the performance and efficiency of their departments and of the departmental heads" [Willis, HR debates, 25 October 1978, p.2297] but it would also allow inspection of the actions of the politician to increase in intensity and severity, something which later events indicated may have escaped their attention⁷⁵.

74. A former Secretary to the Treasury, John Stone, has reaffirmed that despite the new management demands on the senior public servant

the rule that the Department has, first and foremost, is: you serve the Minister. That's the rule. Now, if other things you are called upon to do come into ... conflict with that, then you have to draw a line and say 'Look, stop, I'm sorry' [quoted in Hyslop 1993, p.13].

75. The politics of efficiency auditing are discussed in chapter 6

This section has shown that there was considerable opportunity for efficiency auditing to generate conflict in the public service as it tested traditional accountability relationships. This could be accentuated, as section 5.4.2 following illustrates, according to the interpretation which the state auditor placed on the extent to which efficiency auditing allowed him to investigate Executive performance.

5.5.2 The Vision within the AAO for Efficiency Auditing

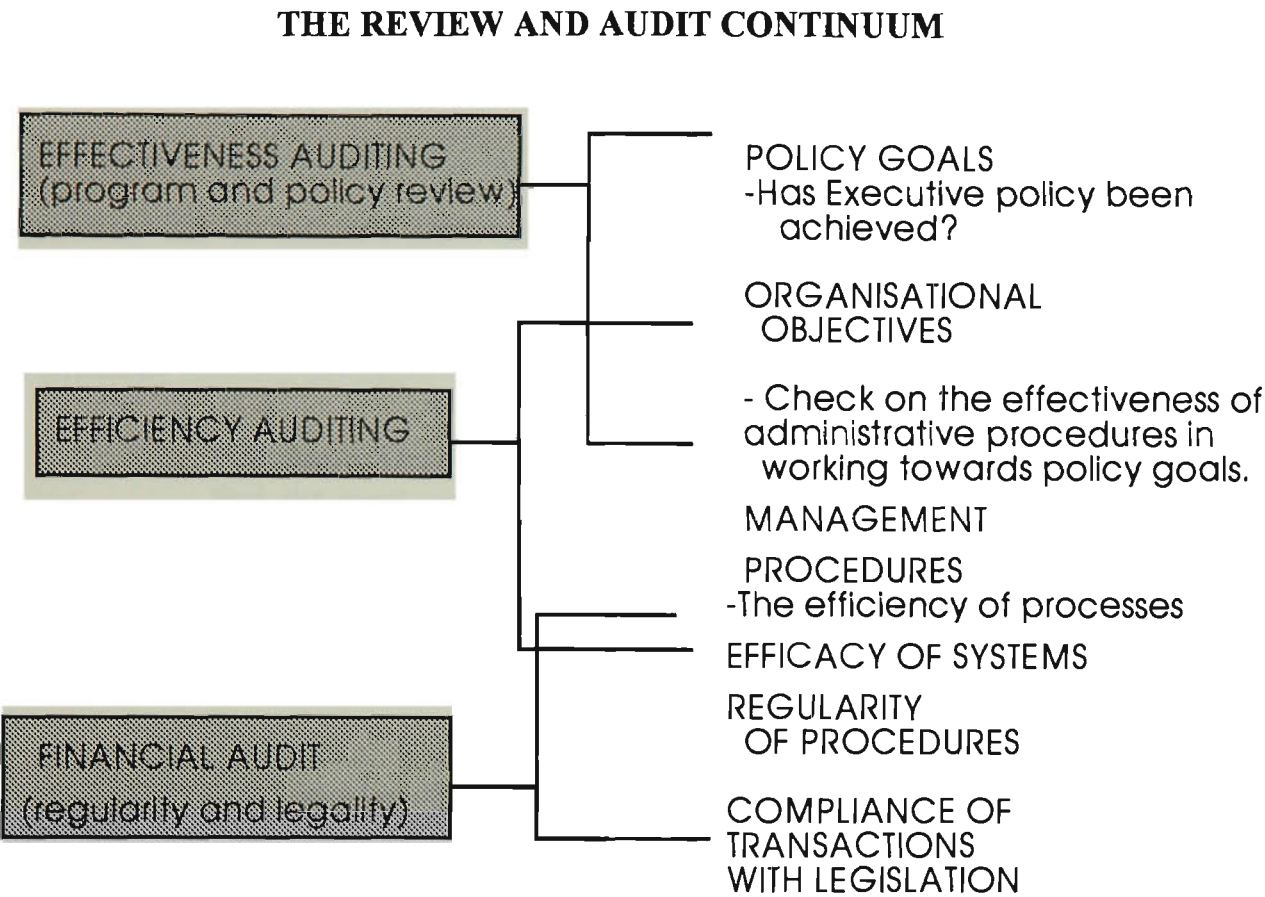
At the same time that the Audit Amendments provided the formal and explicit recognition which the Auditor-General had been seeking to conduct 'value-for-money' type audits, as opposed to an uncertain and potentially challengeable right under sections 54 and 51, by carefully specifying the Auditor-General's efficiency auditing powers the new legislation also excluded the Auditor-General from other activities not specifically provided for in the Act. Almost by way of pledge, the Auditor-General made it clear to the Executive that it was outside his constitutional role to get involved with or to comment upon the appropriateness or otherwise of Government policy. Effectiveness auditing ie. assessing whether government policies had been achieved and were worthwhile achieving, was not his concern. To do otherwise, argued Steele Craik on numerous occasions both before and after the audit amendments, would threaten his independence and that of his office [April 1976, p.8]. This gives the Auditor-General's opposition to commenting on Government policy the appearance of a quid pro quo, an almost covert recognition that without this undertaking on the Auditor-General's part, and which subsequently became a central tenet in efficiency auditing, the amendments to the *Audit Act* would not be forthcoming.

By excluding the state auditor from critical observations on policy, the Executive had assurance that investigations of sensitive political issues by the Auditor-General would to some extent be controlled. The amendments, therefore, tied the Auditor-General ostensibly to a very particular form of performance auditing and it would be upon this

that the Auditor-General would be evaluated. He committed his office to a specific interpretation of efficiency auditing as a means to evaluate the efficient use of resources in the achievement of Government policy, not whether the resources were being used for the best purposes and whether program objectives were being achieved. This stance on policy which the Auditor-General took was at variance with the evolving state audit mandate in the United States but not with those in the Westminster democracies in Great Britain and Canada as shown previously in chapter 4 [see also Figure 5.2 below].

In terms of the audit continuum used in the AAO, as adopted from the GAO and summarised in Figure 5.1 below, efficiency auditing occupied the middle ground. It could be pushed close to effectiveness auditing, an approach which accorded with the preference of Steele Craik and his senior efficiency auditor John Jones, [Expenditure Committee, 1985, Minutes of Evidence, *Inquiry into Public Service Efficiency Review Mechanisms*, Jones, 2 July, p.13] or towards the lower ranges in implementing the efficiency auditing legislation where it would be closer to more traditional auditing. This imprecision in practice, however, meant that in the absence of clear-cut boundaries between the different audit levels the AAO was left in a position where it could easily be accused of overstepping its mandate and involving itself in policy effectiveness issues as opposed to administrative effectiveness [Secretary of the Department of Primary Industry to the Auditor-General, 5 January 1977, AAO file no. k77/5, folio 33].

Figure 5.1



[Jones, *Efficiency Audits: The View from the Auditor General's Office*, March 1979].

According to Jones, from the start of his association with Steele Craik both he and the latter seemed to have had a similar vision for efficiency auditing [Jones, 31.08.90]⁷⁶ with "the model being pursued under Mr. Steele Craik's Auditor-Generalship ... closest to that of the GAO ..." [JCPA, Australia Post, Minutes of Evidence, J. Jones, p.395]⁷⁷. This was also the understanding of the Chairman of the JCPA, David Connolly [HR debates, 25 October 1978, p.2300]. Both Jones and Steele Craik wanted to carry out

76. The main principles for efficiency auditing which he and Steele Craik had agreed to were: focussing on major projects, free standing reports, a multidisciplinary approach, efficiency audits had to be different to other audits and learning would be by doing [Jones 1983, p.2]. These features are discussed further in chapter 6.

77. In his second submission to the RCAGA Steele Craik characterised the GAO as "one of the foremost exponents in ... comprehensive audit" [1974, p.4]. For similar views see also the JCPA Conference, 1977, p.34. While he identified with the broader scope audit of the GAO, Steele Craik did not see himself as emulating the role of the GAO which was in practice a part of the Legislature [Great Britain, 1981, Committee of Public Accounts, Minutes of Evidence, 11 June 1980, p.6]. Pois has described the Comptroller General of the United States (the head of the GAO) as "quasi-legislative, quasi-executive and quasi-judicial" [1979, p.4]. See Pois [1979] for a history of the GAO's move into performance-type audits, especially from p.8.

the audits in close association with the auditee⁷⁸ to ensure that the main thrust of the audits was assisting in the improvement of management performance [Jones, Office Memorandum, March 1979, p.5; Steele-Craik 23 October 1980, p.11 and 1978, p.8]. In his second submission to the RCAGA, the Auditor-General had referred to the 'secondary' but "nonetheless important objective of extending the scope of audit work (to) ... assist departments" [RCAGA, Vol.4, Attachment, p.21]. Under the new regime of efficiency auditing envisaged by Steele Craik the

Permanent Secretary should regard the auditor as his ally, to help him find the weak points in the department's systems and to strengthen them. The ... (audit) should be conceived so as to enable him to welcome the discovery of inefficiencies, not to have to stand publicly in the dock to explain them [Sir Richard Clarke, AAO *Second Submission to the RCAGA*, Attachment, p.21].

Reflecting overseas practice, Steele Craik wanted to open-up the auditing process to allow auditee involvement [JCPA Conference 1977; Morse 1976, p.57]. He believed, particularly with the economic problems then experienced, that the secrecy which characterised state audit was a barrier to getting the best out of audit and from the auditees. To overcome this he advocated that his efficiency auditors consult with top officers in the auditee's organisation at the planning stage of the audit and at mid-audit to discuss audit discoveries and to give the auditee a chance to remedy any problems. Finally, there would be an exit interview. If the Auditor-General found that the organisation was efficient then he was prepared to give credit publicly. He stressed the need to provide balanced, constructive reports and to get away from the one sided critical, 'gotcha' reports which had been the norm for state audit [JCPA Seminar 1980, p.96]. As a result of this revolutionary new policy, Steele Craik hoped that

over a period this would mean that we can build up an understanding and liaison with our clients that will assist the audit process and, *more importantly, assist management in conducting an efficient organisation, and that is the purpose of audit as I see it* (emphasis

78. This closely followed the recommendations of the Working Party [*Working Party Report*, 1977, p.ix].

added) [JCPA Conference 1977, p.40-41; See also Submission of the Auditor-General to the Expenditure Committee, *Inquiry into Efficiency Review Mechanisms*, 1985, p.18].

In the early stages of efficiency auditing, as the next chapter will examine, this new positive emphasis for state audit seemed to be accepted by both auditors and auditees. As the problems of the efficiency auditors mounted, the management assistance element of auditing fell into disfavour, leaving the efficiency auditors isolated and exposed after the retirement of Steele Craik in 1981.

Jones was later to reflect that his approach to efficiency auditing bore distinct similarities with management consulting, a view also held by senior efficiency auditors [JCPA, Australia Post, Minutes of Evidence, Vol.2, p.409; Steele Craik 1979, p.15; Mazey 1978, p.3]. These similarities between management consulting and external audit, cautioned Jones, were not to be allowed to obfuscate the essential differences; "we are not in the management consulting business. We are auditors" [Expenditure Committee, Minutes of Evidence, *Review of the Department of Administrative Services Property Function Efficiency Audit*, Jones, 6 March 1981, pp.298-302; Cutt 1977, p.334; see also Committee of Public Accounts, the comments of Sir Anthony Rawlinson, UK Comptroller and Auditor General, Minutes of Evidence, 1980, p15].

Despite the positive aims envisaged for efficiency auditing by the AAO their actions were to be closely monitored by the Executive. In the next section the PSB is shown to have been used by the Executive in an attempt to moderate the enthusiasms of the efficiency auditors.

5.5.3 The PSB Marks Out its Sphere of Influence in Efficiency Auditing

Using as an excuse the newness of the efficiency auditing function and its complexity, the Government took the opportunity to strengthen its involvement in state audit, not

to reduce it⁷⁹. Significantly, the state auditor was committed to detailed consultations with the central co-ordinating authorities. In a letter to PM&C, DOF and PSB, the Auditor-General confirmed that the implementation of efficiency auditing was to occur within a framework of close consultation with these bodies, as required by Cabinet [AAO, 9 February 1979, AAO ref.78/61]. He also later recognised that, apart from the interests of Cabinet, consultation was necessary to prevent duplication of work as the PSB and the PM&C carried-out their management improvement and program effectiveness reviews⁸⁰ [AAO, 9 May 1979, ref.k79/23; *Working Party Report* 1977, p.ix]. The Auditor-General at the same time understood that this would involve him treading a fine line of independence. He would have to be

sensitive to the relationship between the auditor and the audited body and to suggestions of collusion with the executive or co-ordinating authorities concerned [AAO Minute, 9 February 1979, ref.78/61].

In his submissions to the RCAGA Steele Craik, a former secretary to the Treasury, stated his belief that with increased emphasis on performance evaluation in the public service it was "vitally important" that there be active co-operation between the Auditor-General and the central departments [Submission 3, 1974, p.7; also JCPA Conference 1977, p.40]. He called for *more* formal co-ordination to take advantage of

largely unrealised potential for co-operation in ways *which need not conflict with the concept of the statutory independence of the Auditor-General* or the PSB nor trespass on the traditional role of the Treasury (emphasis added) [Submission 3, 1974, p9].

One suggestion put forward by the Auditor-General to accomplish this was to establish a central independent audit group to co-ordinate all examinations of efficiency and

79. An important yet overlooked change was the appointment of an external auditor for the Audit Office to replace the customary self audit by the Office. Audit of the Office by one of its senior officers was an anomaly which the state auditor would have found it very difficult to justify. It was another instance of the state auditor being opened to wider scrutiny and censure.

80. Program evaluation reviews were originally conducted by the Priority Review Staff who reported directly to the Prime Minister. They were replaced by the Policy Co-ordination unit of PM&C. This eventually became the Priorities and Evaluation Division.

effectiveness [RCAGA, Vol.4, Appendix 4F, p.161]. The Treasury opposed this arguing that it would overlap too much with the Auditor-General's existing work. The RCAGA did heed the Auditor-General's advice for better co-ordination and recommended that the Auditor-General be permitted to establish a committee with him as chairman and comprising representatives of the central departments [R.318, also *RCAGA Report* 1976, pp.374,379]. The Working Party of Officials took up the Commission's recommendation and advised the Government that, as part of the conditions for the assumption of efficiency auditing by the Auditor-General, efforts be made to ensure that during the development stage there was a forum where the 'views' of the central agencies and the Auditor-General could be exchanged [*Working Party Report* 1977, p.36]. Contrary to what they believed was the Auditor-General's apparent preference, the Working Party of Officials wanted this arrangement to be informal to "safeguard the Auditor-General's position better" [p.36]. The RCAGA also cautioned against too close an association between the Treasury⁸¹ and the Auditor-General. This would be

detrimental to his independent legal position and status, and diminishing his power to strengthen the capacity of the government and Parliament to raise the levels of administrative efficiency [*RCAGA Report* 1976, p.370].

Reid also expressed concern for the Auditor-General operating in close and constant proximity with departments which "could not be called neutral parties for the purpose of determining efficiency or inefficiency in administration" [1976, p.326]. Jones, like Steele Craik, was concerned that there be no "appearance of collusion between the two Offices" and that the "Office's (ie. the AAO) independence must in no way be compromised" [AAO Memorandum, 1979, k79/1, p.1]. Clearly, the co-ordination

81. For discussion of the role of the Treasury see the Baume Committee 1979, p.39 and the Treasury's submission to the RCAGA, Vol.4, Appendix 4.E, p.98]. Weller and Smith described the Treasury as "powerful, competent, conservative and feared" [1977, p.7] while *The Examiner* at the time the RCAGA report was released thought the Treasury's influence was too pervasive and that it would use its power to maintain the status quo [3 August 1976; for similar criticisms see *National Times* 3 May 1976].

arrangements with the central departments had the ability to intrude into the Auditor-General's decision making and thereby impinge on his independence. The worries expressed by the auditors demonstrated that they had major reservations about the arrangements which they felt unable to push at this early, uncertain stage.

Very early in the introduction of efficiency auditing disagreement arose between the Auditor-General and the PSB over access and the timing of access of the Board to efficiency audit reports; in this instance the draft report of the efficiency audit report of the Property Division of the Department of Administrative Services [DAS]. The Auditor-General did not regard it as appropriate that the Board have access to the report because, with the agreement of DAS, the audit had been declared prior to when efficiency audit provisions of the *Audit Act* came into force [AAO, Auditor-General to PSB, 28 December 1979]. The Board, to the contrary, was strongly of the view that it be given early access to all efficiency audit reports, normally at the same time as the auditee [AAO, PSB to the Auditor-General, 22 November 1979]. They argued that the Government had intended that the Board be actively and closely involved in the efficiency audit process and that it was up to the Auditor-General to honour this intent [AAO, PSB to the Auditor-General, 22 November 1979]. The Board referred to the statement in November 1977 by the Minister Assisting the Prime Minister when the report of the Working Party was tabled in which he said that

the Auditor General will be asked to work in close consultation with the Public Service Board, which will have continuing responsibilities for efficiency improvement activities under section 17 of the *Public Service Act* [AAO, PSB to Mr. P.G.F. Henderson, Secretary, Department of Foreign Affairs, December 1979; also PSB to the Auditor-General, 22 November 1979].

The Board provided additional buttressing to its claims by noting that there was an explicit reference in the *Audit Act* to the effect that the Board was to receive copies of both restricted and public reports [see s.48F(7)]. They also reminded the Auditor-General of the long standing arrangement which they had whereby they sent the

Auditor-General copies of their Joint Management Review Reports [22 November 1979]. They expected the same courtesies to be extended to them.

The nature of the Board's involvement troubled the Auditor-General [AAO Minute, Jones to the Auditor-General, 29 November 1979, ref.k79/1, p.2]. Steele Craik was concerned that transmission of reports to the Board before the auditee had time to comment formally on the efficiency audit report, as required by s.48F(3), would jeopardise the perceived independence of the Auditor-General. He made it known to Jones that the Board's involvement in efficiency auditing must be at arms-length; the Board was not part of the efficiency audit process, only the general process of *evaluation* which encompassed effectiveness reviews. Steele Craik's initial position was that the Board should not be given early access to the efficiency audit reports and certainly never without the knowledge of the auditee.

Comments expressed during the Expenditure Committee's review of the DAS efficiency audit indicated that it was also not convinced of the need to involve the PSB in efficiency audits. Robert Brown was concerned that access to draft efficiency audit reports would benefit the PSB "in a way in which the Royal Commission (RCAGA) attempted to ensure that it would not benefit" [Minutes of Evidence, 26 February 1981, p.248]. The Committee was especially protective of the "objectivity of the Auditor-General" [p.253]. The PSB understandably saw such worries as completely unfounded, arguing that the liaison arrangements did not interfere with the Auditor-General's independence [p.253].

It is in the discussions between the Board and the Auditor-General and between Jones and the Auditor-General that it becomes clear that the Government from the inception of efficiency auditing was not going to allow the Auditor-General to operate without significant involvement of the Executive through its arms of the PSB, DOF and PM&C, but in particular the Board. The Board argued that because most efficiency

audits would involve recommendations for improvements in management and operating efficiency there would almost invariably be staffing implications which, under its legislation, were its "bread and butter" concerns [PSB to the Auditor-General, 22 November 1979].

Jones, while fully appreciating the Auditor-General's position, argued against Steele Craik's hard line treatment of Board requests for more involvement, especially at the draft report stage [AAO minute, Jones to the Auditor-General, 25 September 1979, ref.k79/1, p.1]. Jones could see that it was important to get the Board on side if efficiency auditing was to stand any chance of being successful both in the short term and long term. He stressed to the Auditor-General that involvement of the Board would give the auditors some early feedback on organisational and staffing issues which would contribute to the constructive mood of the report. More importantly, it would enhance the commitment of the Board to specific audits and to the efficiency auditing process in general. In this way the AAO was more likely to be able to count on Board support when it came time to review the operation of efficiency auditing after two years in 1981 [AAO Minute, Jones to the Auditor-General, 25 September 1979, ref.k79/1, p.1]. Further, with this commitment on the part of the PSB, improvements suggested by the auditors would be more likely to be implemented in a timely manner. This, continued Jones, was necessary to enhance the success of efficiency auditing (EA) for

ultimately ... (it) will be judged by improvements in administration that flow from it, directly or indirectly. There will inevitably be argument as to whether the improvements are, in fact, attributable to EA, but it is probably fair to expect that the sooner after an EA improvements are implemented, the more likely will the cause and effect relationship be perceived. Secondly, the likelihood of improvements being implemented is enhanced if EA reports suggest approaches acceptable to the PSB and the Departments; and again cause and effect perception would be strengthened. Thirdly, to the extent that the long term viability of EA will be determined by the attitudes of co-ordinating authorities, any

commitment by the PSB to the EA process is helpful [AAO minute, Jones to the Auditor-General, 29 November 1979]

Thus, Jones was under no illusions as to the potency of the forces which could be raised-up against the efficiency auditors. He was aware that the success of efficiency auditing would be only in part dependent upon his own actions and those of his team of auditors. Jones' discussions with the Auditor-General demonstrate that, despite publicly professed support for efficiency auditing by the Government, the efficiency auditors would not be left alone to work through their learning phase. They would be answerable to the central co-ordinating authorities as well as to Parliamentary committees. To enforce this, for the first time the Auditor-General's Office would undergo an external efficiency audit, the auditor to be chosen by the Office's largest auditee, the Department of Finance [section 48J to P]. Efficiency auditing had thrust the state auditor into a position which exposed him to the formidable power of Executive central agencies which had a long history of involvement in departmental management. The experience of the Auditor-General had been the very opposite.

Following the Board's strongly worded letter of the 22 November 1979 which reiterated the contents of a letter of the 11 December 1978, Jones again wrote to the Auditor-General to outline what he saw as the possible responses to what was becoming an impasse between the Executive and the Auditor-General [AAO, 29 November 1979]. He noted that during informal discussions with the Board's secretary, Brian Hamilton, that the Board had indicated that it "was not disposed" to asking the auditees for a copy of the reports, that it was still insisting that all efficiency audit reports be sent direct to the Board as a regular procedure. Hamilton had assured Jones that this could not be construed as the Auditor-General and the Board being "in cahoots". Jones pointed to the legal requirements of Section 14(c) of the *Public Service Act* which compelled the Auditor-General to provide certain specific reports to the Board and to Cabinet Decision 2420 which required, as part of the efficiency audit process, the Auditor-General to liaise closely with the central co-ordinating authorities

of the Executive. He then made a number of suggestions which centred around the Auditor-General's concern for preserving independence in efficiency auditing and recognised the realities of the Board's preeminent position in the public service. Jones suggested that the Board and the AAO could both be satisfied if the Board was involved throughout the audit process by providing a liaison officer. The appointment of a member of the Board would still require the approval of the auditee and all communications on the audit and access to information would be through the auditee. It would be via the auditee that the Board would receive a copy of the draft report and it would be given the same time as the auditee to comment on its contents [AAO 1979, ref.k79/1, p.1].

Steele Craik accepted Jones' compromise proposal which was communicated to the Board on the 28 December 1979. At the same time he brought up another hoary issue with the Board which the audit legislation amendments left in an ambiguous state. According to the Auditor-General's reading of his mandate he did not intend to involve the Board in any efficiency audits of statutory authorities whose staff did not come under the *Public Service Act*⁸². The Board accepted the liaison suggestion but had reservations about the Auditor-General's position on statutory authorities outside the *Public Service Act* and preferred to leave the issue unsettled for the moment and to treat each case as a separate issue.

By early 1980 the role of the PSB in efficiency audits had been sufficiently clarified for Jones to define this role for efficiency auditors and to provide guidelines in the implementation of this role [AAO minute, Jones to EAD staff, 23 July 1980]. The

82. The RCAGA had recommended that efficiency auditing apply to statutory authorities 'generally' and that the enabling legislation of these bodies should automatically invoke the appropriate clauses of the Audit Act [R.39, p.92]. At the same time the RCAGA sought to correct the anomaly whereby the JCPA was empowered to examine only Commonwealth accounts and reports submitted to the Auditor-General [*Public Accounts Committee Act* 1951, s.8]. Statutory authorities did not come under Commonwealth accounts and therefore would escape JCPA, and therefore parliamentary attention, if not in the Auditor-General's report. Accordingly, the RCAGA wanted the necessary amendments to be made to allow the PAC to examine any accounts of Executive agencies [RCAGA Report 1976, pp.92-93].

AAO accepted that the PSB had a legitimate interest in efficiency audits because there may be matters which impinged upon its responsibilities under the *Public Service Act*, particularly the joint responsibility with departmental Permanent Heads for departmental efficiency. Jones reminded his staff that in their dealings with the PSB not to feel intimidated⁸³ and that the authority of the PSB was limited [AAO minute, Jones to EAD staff, 23 July 1980].

The liaison arrangements provided for the participation of an officer of the PSB who would:

- participate in the formal discussions between the AAO and auditees
- brief PSB staff on matters arising from audit which required input from the Board
- "assist and advise the organisation and the audit team as required ... *prior to* the preparation of the audit report" (emphasis added)
- "if requested, support the organisation in its consideration of the draft audit report"
- help implement solutions
- co-ordinate the preparation of a response to the Audit Office [PSB, *Efficiency Audit Liaison*, 1980, p.2].

These arrangements gave the PSB an early warning system, a means to attempt to contain the contents of any potentially damaging reports and the opportunity to coach auditees. These terms were implemented under the guise of ensuring a speedy response to issues which the Auditor-General had identified.

Although Jones had supported out of necessity involvement of the PSB in efficiency auditing, pressures from the PSB to assert a place in efficiency auditing highlighted the potential for Executive interference. Jones wanted to ensure that the auditee did not

83. It was noted in chapter 4 that fear of retribution by the agency which controlled government staffing matters in Canada had dampened the revolutionary enthusiasm of the Comptroller and Auditor-General Henderson's staff.

see the efficiency auditors as an agent of the Board nor did he want the Board to be accorded an influential role in the audit process. Jones cautioned his office to

be wary of any situation which might be taken to imply that this Office and the PSB are jointly out to dish the audited organisations, or, conversely, that we, with the audited organisation, have joined hands against a position adopted by the PSB [AAO minute, Jones to EAD staff, 23 July 1980].

In all their dealings with the Board the efficiency auditors were to ensure that the independence and impartiality of the Office was upheld *and seen to be so*. Jones and his staff were in a position where they could easily be caught between a rock and a hard place: if they satisfied the PSB they could alienate the auditee and vice versa.

The terms of the understanding reached with the PSB were that the efficiency auditors were not to provide the Board with access to audit documents without the approval of the auditee and that, apart from general inquiries, there should be no communication with the Board by the efficiency auditors without the presence of a representative of the auditee. The role of the Board, noted Jones, was restricted to the post audit process of considering and implementing the findings of the auditors [see also *Guidelines for Liaison and Co-ordinating on Efficiency Auditing*, PSB, 14 August 1980; AAO minute, Jones to the EAD, 23 July 1980]. Jones also wanted to make it clear that, while both the Board and the AAO had an interest in improving the efficiency of government, there would be no occasions for the Board and the Office to work together to explore "joint development of possible alternatives" [AAO Minute, Jones to the EAD, 23 July 1980]. The relationship between the two offices would be

to inform and consult, but this does not run to acceptance of the notion that the Board in respect of efficiency auditing may adopt the sort of energetic advisory role that it does and should adopt in respect of departmental operations [AAO minute, Jones to the EAD, 23 July 1980].

As part of the co-ordination process between the efficiency auditors and the central departments it was usual, at least in the early years, for PM&C, DOF and PSB to be consulted about the targets for efficiency auditing. For example, on 1 September 1981 representatives of the AAO met with officers of these departments at Canberra House to discuss program options for the 1981/82 round of efficiency audits⁸⁴. Recognising that each of these Departments may have had different interests in the efficiency audit mandate the AAO's minutes of this meeting cautioned that

it is important to keep in mind that the comments of PSB/Finance/PM&C are always likely to reflect their separate institutional interests as well as the subjective views of the individual representatives.

The AAO laid before the meeting a list of possible areas for Limited Scope Efficiency Audits (LSEA's). For each item on the list of possible efficiency auditing targets the co-ordinating departments indicated whether there was anything which would inhibit a successful efficiency audit and which areas they considered to be most suitable for efficiency audits. At times the coordinating authorities attempted to dissuade the AAO from pursuing some areas as audit prospects. The suggestion that the Bureau of Mineral Resources, Geology and Geophysics would be an appropriate area for an efficiency audit drew a concerted objection from PM&C. They argued that an efficiency audit on the Bureau would involve the AAO in policy questions, given that the Bureau was then politically topical. At another meeting on 22 April 1982 the PSB urged the AAO to drop its proposed efficiency audit of the Deputy Crown Solicitor so as not to "cut across Public Service Activity" [Minutes of the meeting by B. Kimball]. Similar objections were raised by the PSB for an efficiency audit of the Reserve Bank [Minutes of meeting, 28 April 1982]. At this latter meeting Michael Keating of PM&C warned the AAO staff present that efficiency auditing should not venture into "sensitive political areas".

84. Those in attendance were: P. Mazey acting FAAG, AAO; R. Mackey, acting AAG, AAO; N. Atcherley, DOF; G. Potts, development branch DOF; N. Stevens, FAS Economic Division, PM&C; L. Powell, PM&C; J. Foley, FAS, Management Systems and Efficiency Division, PSB and J. Millbank, PSB.

These meetings, which were a regular occurrence, guaranteed that the Executive would be able to take an active role in the efficiency audit process. The Executive might not be able to stop an efficiency audit but by indicating any objections the very powerful central co-ordinating departments were able to give the auditors advance warning of some projected difficulties. If the auditors were going to have their work evaluated after two years by representatives of these three departments it was therefore very much in the AAO's best interests to avoid areas where they could easily be brought into conflict with the co-ordinating authorities.

Consultation at this level was something new to the AAO. Its financial audit mandate was clearly legislated with little or no discretion given to the Auditor-General to determine the areas of audit. With efficiency audits the Auditor-General was given considerable discretion in the selection and timetable of efficiency audits which provided the opportunity for the co-ordinating authorities to become a part of the audit process.

Chapter 6 will establish how continued concerns by the Steele Craik and his successor led to a phasing out of these regular consultations with the central departments:

any proposal for institutionalisation of formal arrangements for co-ordination of efficiency audits (or, indeed, any of the Auditor-General's functions) with other processes for review of APS (Australian Public Service) efficiency would have far reaching implications for the Auditor-General's role especially in relation to the service he provides to the Parliament. ...

Independent, objective investigating, followed by reporting to the Parliament and thereby to the public, are the essence of that role. Any derogation from the principle of that independent status would inhibit the effectiveness of the service the Auditor-General can provide to the Parliament and to the Executive [Submission of the Auditor-General to the Expenditure Committee, *Inquiry into Efficiency Review Mechanisms*, 1985, pp.23-24].

5.6 CONCLUSION

This chapter has demonstrated that efficiency auditing was a response to difficult economic times and changing conceptions of accountability within Australia's Westminster form of governance. In a similar manner to Britain and Canada, the Australian public service was now expected to be accountable for its efficient and effective use of resources. Traditional conceptions of accountability which had increasingly allowed Ministers and public servants to escape the consequences of poor performance were no longer seen as acceptable. In response to this growing unease the RCAGA was shown to recommend enhanced accountability for public servants but only if they were also given the commensurate authority to achieve improved performance. Once this had been provided then efficiency audits would provide a means to monitor performance. Unfortunately, as this chapter has shown, most of the RCAGA's recommendations for the reform of public sector management were left in abeyance by the Fraser Government which instead preferred to place its faith in cost cutting exercises⁸⁵. Thus when efficiency auditing was implemented, unlike Britain and Canada

- service wide efforts to formulate and publish program and organisational goals were absent;
- information systems were not set in place which would provide management with the information they needed to establish goals and on which performance could be evaluated to determine whether management had been efficient and effective in the use of resources;
- the culture of the public service was yet to change to where concern for the costs of programs and performance would be instinctual and not alien, lower level concerns;
- management had not been given greater decision making freedom.

85. During the 1980 elections the Prime Minister made a commitment to reduce expenditure further. To this effect on 3 November 1980 a committee for the *Review of Commonwealth Functions* consisting of Lynch, Nixon, Howard and Guilfoyle was established. Its predatory cost cutting recommendations earned it its title the Lynch razor gang.

The Reid Committee in 1983 judged that any devolution of authority from the central departments to the line departments which had occurred following Coombs' recommendations was insufficient to bring about a service-wide change in attitudes and management practices to allow resources to be used to the "best effect" [pp.39,73]. Program and departmental objectives were still the exception rather than the rule, responsibilities were not clearly defined and there was inadequate information to allow managers to exercise any extended responsibilities [Reid Committee 1983, p.40]. Although by 1983 it had become obvious that preparations in the Fraser years meant that a new direction was being charted for Australian governance, the journey proper had yet to begin in earnest. It was left to the Hawke Government from 1983 to develop fully a new public service paradigm centred on managerial, positive economics principles. The Reid Committee concluded in 1983 that

much ... remains to be done Much reform has been suggested in earlier reports ... but some desirable reforms have not been attempted, the will not always existing- perhaps largely due to insufficient recognition of the importance of development of management skills [p.6].

Consequently, insufficient foundations were laid for successful efficiency auditing [see comments by J.Weldon, Submission to the to the Expenditure Committee *Inquiry into Efficiency Review Mechanisms*, 1985]. As a new audit initiative, therefore, efficiency auditing was going to be susceptible to any destructive forces. In these circumstances the efficiency auditors were to find it very difficult to have any lasting or penetrating impact on departmental management practices [see the Submission of the Department of Administrative Services to the Expenditure Committee *Inquiry into Efficiency Review Mechanisms*, 1985, p.1]. Increased performance expectations held for the public service in the absence of a fundamental shift in the reigning public service paradigm placed the auditors in a particularly vulnerable position in the event that they criticised senior officers [AAO Minute, March 1979, p.9]. Auditor-General Monaghan

[1983-1988] thought that the Financial Management Improvement Program (FMIP) of the Hawke Government would, for the first time, create the conditions which would allow the efficiency auditors to be effective in their work. He noted that the FMIP would release the auditors from the need, as in the past, to "go to some lengths to establish precisely what are the objectives of the program under examination and to identify measures of performance" [Submission of the Auditor-General to the to the Expenditure Committee *Inquiry into Efficiency Review Mechanisms*, 1985, p.7].

This chapter has also exposed the high level of Executive involvement in the planning and evaluation phases of efficiency auditing; a far greater degree of obvious intervention than had been the norm with financial/compliance auditing. Thus, contrary to the reforms in Canada and Britain, the independence of Australian state audit was further drained of substance by the efficiency auditing amendments.

Comparison of state audit reform in the three countries covered in this study is summarised in Figure 5.2 below. It highlights the limited nature of the reforms in Australia as examined in this chapter and the isolation which would be the lot of the efficiency auditor. A great strength of the Canadian approach to audit reform was the intense involvement of the private sector accounting profession. This not only provided the state auditor with the expertise to give efficiency auditing a good start but it also gave the state auditor a network of support to deal with emerging problems of the new audit technology.

Figure 5.2

**COMPARISON OF STATE AUDIT
AS PROVIDED IN LEGISLATION APPLYING IN 1983**

FEATURE	AUSTRALIA	BRITAIN	CANADA
<i>1.APPOINTMENT of THE AUDITOR</i>	Appointed by the Governor General on the advice of the Prime Minister.	Appointed by the sovereign on the agreement of the House of Commons after the Prime Minister has obtained the agreement of the Chairman of the PAC. To be known as an officer of Parliament.	Appointed by the Governor in Council on the advice of the Executive.
<i>2. SALARY</i>	Paid from the Consolidated Revenue Fund (CRF)	Paid from the Consolidated Fund.	Equal to that of the Chief Justice of the Federal Court of Canada. Paid from the CRF
<i>3. TENURE</i>	During good behaviour until age 65.	During good behaviour until age 65.	During good behaviour for a period of 10 years until age 65. Not eligible for reappointment.
<i>4. CONTROL OF STAFF</i>	Appointment and pay scales the responsibility of the Department of Finance. Promotion, dismissal and organisation of office controlled by the Auditor-General.	C&AG can appoint staff and determine conditions of employment. Has discretion over the number of staff and organisation of the Office.	Staff are appointed under the Public Service Employment Act. Appointments are determined by the state auditor.
<i>5. PERFORMANCE AUDITING</i>	Can comment on the efficiency of operations and the controls in place for management to check on the effectiveness of their management.	Can comment on the efficiency of operations and the controls in place for management to check on the effectiveness of their management.	Required to report on efficiency.

6.EFFECTIVENESS AUDITING	Does not see comments on the effectiveness of policies as part of the auditor' mandate. Expected to make observations on whether procedures are in place for auditees to assess the effectiveness of programs.	Does not see comments on the effectiveness of policies as part of the auditor' mandate. Expected to make observations on whether procedures are in place for auditees to assess the effectiveness of programs.	Expected to make observations on whether procedures are in place for auditees to assess the effectiveness of programs.
7.STAFF NUMBERS	Determined by the Department of Finance.	Determined by the C&AG.	Determined by the need to carry out functions. No specific provision for control over numbers.
8.CONTROL OVER RESOURCES	The Auditor General is entirely dependent on the Department of Finance.	Separate budget estimates for the NAO are submitted to Parliament through the Public Accounts Commission.	The Auditor General is required to provide separate estimates to Parliament each year. If insufficient resources are received then the auditor has the right to petition Parliament.
9.DISMISSAL OF STATE AUDITOR	Joint recommendation by both Houses to the Governor General.	Joint recommendation by both Houses.	Recommendation by both Houses to the Governor in Council.
10.RELEVANT AUDIT LEGISLATION	<i>Audit Act</i> 1901 as revised in 1978.	National <i>Audit Act</i> 1983.	Auditor General Act 1977, Financial Administration Act

<i>11.ORGANISATION OF EFFICIENCY AUDITING FUNCTION</i>	Between 1979-83 as a separate function, the responsibility of a separated unit, the Efficiency Auditing Division	Efficiency auditing or value-for-money auditing was integrated with the financial audit function	Efficiency auditing or value-for-money auditing was integrated with the financial audit function
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In both Britain and Canada widening of the state auditor's mandate to include efficiency and administrative effectiveness occurred within a public sector environment which was in a fervent of management reform. Partial implementation of the Coombs recommendations in Australia placed the efficiency auditors in circumstances which overwhelmed them and exerted pressures on state audit which were to force the state auditor to retreat from the vision of efficiency auditing which Jones and Steele Craik attempted to implement. This retreat, and the way it exposed weaknesses in the state auditor's independence as he attempted to recover are the subject of chapter 6.

PART 3
STATE AUDIT THREATENED

CHAPTER 6

STATE AUDIT UNDER STRESS 1979-84: RESPONSES OF THE AAO TO THE DILEMMAS OF EFFICIENCY AUDITING

Efficiency auditing depends entirely for its potential on the auditors getting full information. Departments will be expected to provide information which puts them in a favourable light and suppress other information. Politicians in government also have an incentive to hide information not favourable to them. The governing politicians and the inefficient bureaucrats will form a mighty powerful coalition, a Goliath against whom the efficiency auditor would have to be an incredible David. (I)t might ... be possible to find an able and powerful and very zealous person to run an Efficiency Audit Agency ... but ... it would quite quickly lapse into quietude, absorbing the live and let live philosophy which naturally prevails among the top echelons of the bureaucracy [Samuel 1977, p.151].

CHAPTER 6

STATE AUDIT UNDER STRESS 1979-84: RESPONSES OF THE AAO TO THE DILEMMAS OF EFFICIENCY AUDITING¹

SECTION I. PREPARATIONS

6.1 INTRODUCTION

There had been little essential change in Australia's form of governance and accompanying conventions of accountability by the 1970's from the form inherited from 19th century Britain. As a consequence, state audit experienced few difficulties in Australia and was largely immune from challenge. The administrative, legalistic focus of state audit for over 70 years allowed the state auditor to profess an independent position and for his Office to be generally accepted as having *substantive independence*. This changed when the state auditor sought to modify his audit by turning his attention to the management performance of public service administrators. Then state audit experienced a level of stress and threat never previously encountered. It was not so much the shift in audit concern and its accompanying new audit technology per se which exposed the auditor to attack but the dissonance which resulted between the modified form of state audit and the form of governance upon which it was *grafted*.

This chapter focuses on the principal events constituting the life of the new Efficiency Audit Division (EAD) [1978-84] which had been established within the AAO to

1. Much of the material used in this chapter comes from confidential AAO documents provided by sources now outside the AAO. Access can be given to the documents in the author's possession should this be necessary.

develop efficiency auditing methodology and to carry out efficiency audits. It demonstrates that the changes in state audit allowed by the audit amendments of 1979 which went beyond the underlying form of governance, as chapter 5 has shown, resulted in a crisis in state audit in Australia which progressively worsened throughout the life of the EAD. The problems experienced by the state auditor were mainly a result of challenges to his ability to judge the management performance of auditees and the way the Auditor-General went about measuring this performance. The most serious disagreements were over which elements of performance were the rightful concern of the Auditor-General.

The high degree of subjectivity in efficiency auditing made it an easy target for agencies which were unhappy with audit findings. The terms efficiency and audit are a curious mixture of paradox and contradiction: the measurement of efficiency, concerned as it is with outputs, can be highly subjective while audit connotes precision, objectivity and verifiability [see HR debates, 23 March 1987, p.1306]. Efficiency auditing caused the state auditor to move from the well developed protection of his traditional audit methodologies and standards to where he was no longer on familiar ground. More importantly, the auditor was now on grounds which were much better known to the auditee. Auditees were intimately acquainted with their management procedures, the organisation of staff, their department's aims, whether expressed or implied, and with the technicalities of their work. At least initially, the advantage would be with the agency to be audited. Experience demonstrated that the auditee was prepared to use this advantage to embarrass the auditor. The often politically contentious nature of efficiency auditing meant that there would be a great deal at stake for the auditees to ensure that the efficiency auditors did not get the better of them. In the face of a concerted and sustained onslaught by Executive departments it became increasingly obvious that the traditional bases of the state auditor's independence were not sufficient to protect his Office or to sustain the *image* of a

strong, impartial state audit function with *substantive independence* working on behalf of Parliament.

The aim of this chapter is to show that as the problems experienced by the EAD between 1979-84 accumulated and the Auditor-General came under increased pressures he retreated from efficiency auditing and attempted to recover the high ground in state audit by reverting to less contentious forms of audit. Auditor-General Brigden's retreat from efficiency auditing and the problems it had raised for his Office's independence was accomplished by:

- reductions in contacts with auditees and with central co-ordinating departments
- closure of the EAD and absorption of its functions into the line divisions of the AAO as part of a major re-organisation
- a reduced emphasis on efficiency audits and an increase in project audits
- a deliberate policy to blur the distinctions between efficiency auditing and project auditing through the use of ambiguous terminology and thereby create an equivalence in the eyes of outsiders between efficiency audits and project audits
- moderating the public profile of efficiency audits which included taking them out of their special yellow jackets and placing them in the usual annual reports
- moving back to staffing the AAO with accountants and derogation of the contributions which other disciplines could bring to efficiency auditing

Some of these reactions have been variously described in the limited literature on the development of efficiency auditing as evidence of the strength of the Auditor-General's independence, as indicated by his ability to change direction [Hamburger 1987], and as understandable adjustments to social and political promptings to ensure that efficiency auditing was congruent with its environment [Guthrie and Parker 1991]. Contrary to

these studies, this chapter argues that the reactions were thought necessary because of a lack of *substantive independence*: they showed the weakness of state audit, not its strength. Indeed, flexibility in organisation and audit technology should not be taken as equivalent to state audit with *substantive independence*.

The threats to the state auditor arising from the intrusions of efficiency auditing exposed the shallowness of the state auditor's independence and his vulnerability when the Executive was displeased with his inquiries. The assumption of efficiency auditing brought into sharp relief the limited boundaries of the state auditor's independence and his permissible domain of activity. It became only too clear that the facade of independence constructed since 1901 was unable to withstand unscathed the challenges which arose from efficiency auditing. Given that the Executive had no intention of following the Canadian example and giving state audit the means to achieve a form of independence which would enable it to meet its opponents with strength, the state auditor was forced to retreat. When faced with a menacing Executive it was far easier for the state auditor to withdraw as inconspicuously and as convincingly as possible to well known audit thoroughfares. As criticism of efficiency auditing mounted Auditor-General Brigden clung very tightly to the traditional type of state audit and used the AAO's public image of an independent office as a mantle of protection. The conception of efficiency auditing of the head of the EAD, John Jones, pulled this mantle of protection back and exposed the Auditor-General to a level of threat never previously experienced. The emperor's dignity was after all much less protected than had been thought.

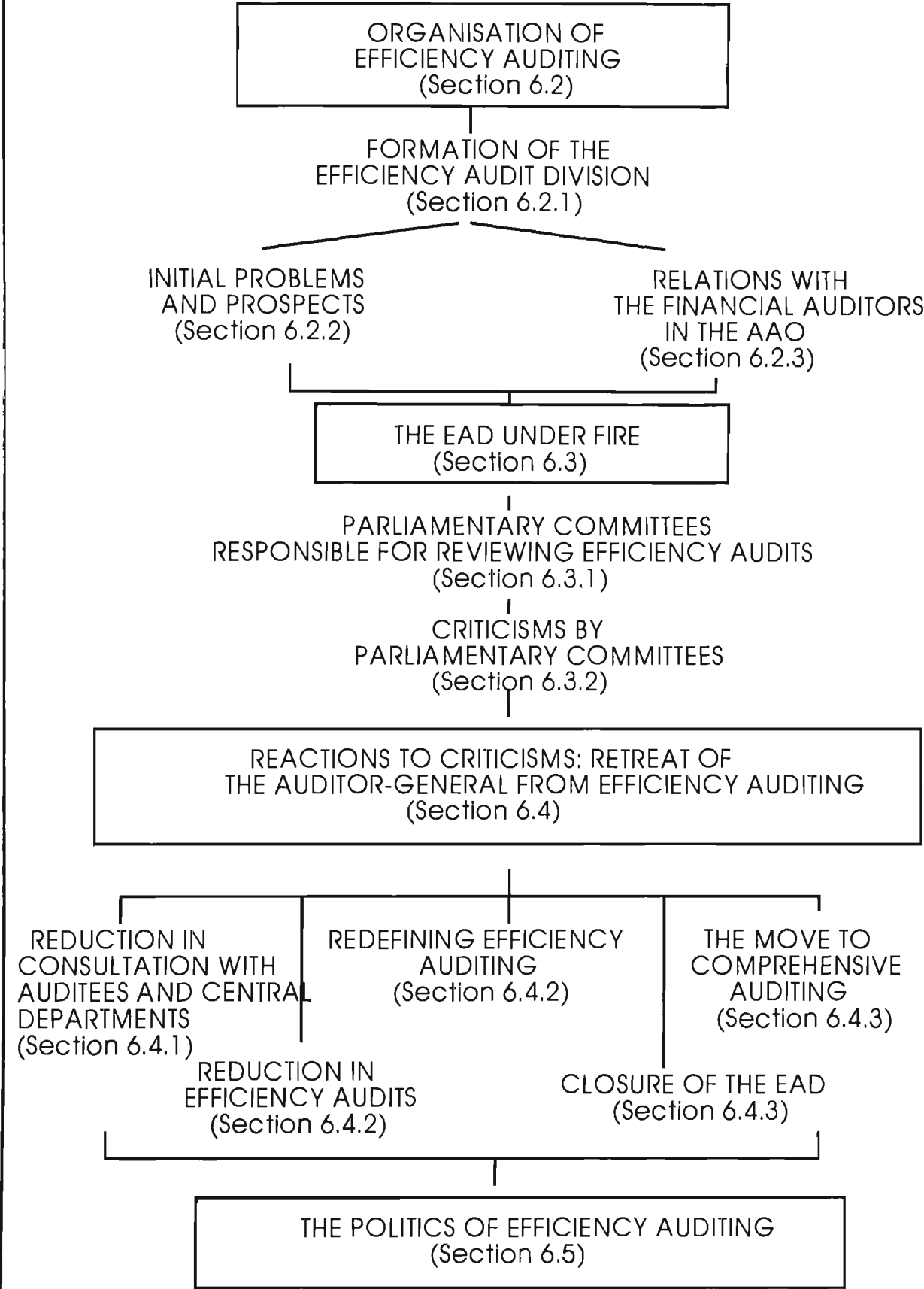
After examining in section 6.2 the organisation of efficiency auditing within the AAO, section 6.3 illustrates the problems experienced by the EAD with reference to complaints from auditees and the reviews of efficiency audits conducted by the House of Representatives Standing Committee on Expenditure (Expenditure Committee) and the Joint Committee of Public Accounts (JCPA). Only those reports actually reviewed

and reported before the EAD finally ceased operations in May 1984 are relevant to this study.

Section 6.4, by drawing heavily on internal AAO documents, then undertakes a detailed analysis of the Auditor-General's reactions to the predicament in which he had been placed by efficiency auditing to show that these were the actions of a state auditor who had found himself vulnerable and the quality of his independence weakened. Section 6.4. also highlights the antagonism between the head of efficiency auditing, John Jones, and Auditor-General Brigden over the latter's attempts to reduce the stress on his Office and shows the very different conception each had of the relationship between efficiency auditing and state audit independence. The chapter concludes in section 6.5 with observations on the political nature of state audit but especially that of efficiency auditing and how this rebounds on the independence of state audit.

The direction of the chapter is summarised below:

CHAPTER 6 PLAN



6.2 THE ORGANISATION OF EFFICIENCY AUDITING

6.2.1 Formation Of The Efficiency Audit Division (EAD) and the Rise of the Non-Accountant Auditor

At least two approaches were available to the Auditor-General to organise efficiency auditing: either the work of the existing audit divisions² could be expanded to include efficiency auditing or a separate division could be established to be responsible only for efficiency auditing. Despite the experience gained by existing financial divisions in conducting project audits and his earlier comments about the closeness of efficiency auditing and financial auditing [see section 5.3.2 earlier], the preference of the Auditor-General was for a separate efficiency audit division [EAD]³, designated as Division E, to be staffed by a multi-disciplinary team [RCAGA, Vol.4, Appendix 4.F, p.159; JCPA, *Australian Post Inquiry*, Minutes of Evidence, 1985, pp.239-241]. In this decision Steele Craik was mainly influenced by the experiences of the GAO⁴ which indicated that efficiency auditing should not be the sole prerogative of accountants [Connolly, HR debates, 25 October 1978, p.2300]⁵.

2. Divisions A, B and D were organised along functional lines with each responsible for the planning, execution and control of financial audits for a number of departments and statutory authorities. Division C had responsibility for administration and data processing functions. For a detailed breakdown of the numbers and location of the AAO staff see *Submission 1 of the AAO to the RCAGA*, 1974, p.26.

3. Normanton [1966] in his influential survey of European state audit also had suggested that it might be best to create a new unit to handle the developmental stage of performance or value-for-money audits.

4. Auditor-General Brigden was later to criticise the decision to set up a separate division for efficiency auditing arguing that the GAO was not an appropriate model for the AAO. He claimed that the GAO was more an investigative arm of Congress rather than an audit office [JCPA, *Australia Post Inquiry*, Minutes of Evidence, 7 August 1985, p.291].

In 1967 there had been a major shift in the recruitment policy of the Comptroller General of the GAO. Subsequently, accountants made up a diminishing proportion of total staff. The rise of non-accountants can be seen as follows:

June 1967	10 out of 2500 audit staff
June 1971	483 out of 2900 audit staff
June 1977	1400 out of 4100 audit staff [Statss 1977, p.64; Pois 1979, p.194].

The remainder were made up of experts in administration, management, economics, engineering, computing and other areas [Steele Craik 1977, p.15; *The Canberra Times*, 22 February 1977].

5. Steele Craik's experiences with operational auditing, the precursor to efficiency auditing, in the early seventies contributed to his appreciation of the benefits which non-accountants could offer state audit. Operational audits were implemented before staff with accounting qualifications were properly trained and before top management fully understood what they were expected to achieve with the modified approach to audit. Most of the problems with operational auditing could be traced back to the AAO's decision to give the task to staff who did not possess the requisite skills and who, by dint of training and experience, had an inappropriate "mind set". It was

Overseas experience had shown that because of increasing complexity in public sector agencies and greater sophistication of accounting systems performance auditing called for a wide spectrum of skills. Analytical abilities were to be most highly valued [AAO, *Further Study for Officers in the Commonwealth Auditor-General's Office*, 1979a, p.1]. Disciplines identified by the AAO as relevant to efficiency auditing were: accounting, economics, mathematics, communications, law, management, data processing, psychology, operations research, statistics and political science. The ideal was for staff to have qualifications in accounting and one of these other disciplines [AAO, *Further Study*, 1979, sections 2-1,2-2]. Interested departments also supported this approach [for example see Attorney's General Department, *Response to the Report of the Working Party*, 17 November 1977, AAO file ref. k77/5, folio 83]. In his submissions to the RCAGA Steele Craik canvassed the possibility of supplementing the skills of his staff by appointing consultants as needed [RCAGA, Vol.4, Appendix 4.F, p.159]. This was later taken up in Parliament where it was suggested that, at least in the early stages, it might be preferable to let outsiders do the efficiency audits [McVeigh, HR Legislation Committee, 15 November 1978, p.15]. Neither of these suggestions was acted upon. Contributions to efficiency auditing from accountants, who dominated the AAO in the seventies to almost the exclusion of all other disciplines⁶, were still seen as relevant, if incomplete, for efficiency auditing [Cutt 1977a, p.47; See also RCAGA, Vol.4, Submission of the Auditor-General, p.159; Normanton 1966, p.271]. Of the 472 audit officers in 1974, 397 had some type of accountancy qualification with the remainder engaged in accounting studies [AAO, *Submission 4 to the RCAGA*, 1974, p.5]. By 1976 staff with accountancy qualifications made up 430 of the 550 positions at the AAO [*The Australian*, 18 September 1976].

demanding too much to require staff who had previously audited against Treasury regulations- in an absolute context of right and wrong- to summarily enter the grey area of appraising reasonable management use of resources [Kimball 1976, p.32].

Kimball was a member of the Audit Office who later served in the EAD.

6. Since 1930 accountancy qualifications had been a requirement for all staff above class 9 ie. Senior Audit Inspector.

The appointment of John Jones in February 1978 as head of the EAD⁷ signified a marked change in the membership of the AAO away from accountants and indicated Steele Craik's appreciation of the new demands brought about by efficiency auditing and the responses called for from the AAO. Jones was the only division head in the AAO who did not have a background in accounting or financial audits. Instead, Jones had qualifications and experience in aeronautical engineering and systems analysis. He had also been involved in performance reviews after being recruited to PM&C in 1975; experience which ensured his qualification for the leadership of Division E [JCPA, *Australia Post Inquiry*, Minutes of Evidence, Vol.2, 1985, p.406]. Immediately prior to his appointment to the EAD he had spent four years as an analyst at the Bureau of Transport Economics.

Although Jones and Steele Craik acknowledged that it was necessary for the evolution of efficiency auditing to proceed with caution, it was impressed upon Jones by experienced public servants that his tenure would depend upon "getting runs on the board quickly" [Interview, Jones, 19 July 1990; also supporting comments from Respondent 3, 27 July 1990]⁸. As a consequence, Jones estimated he would have three years to show results. It was a case, as he referred to it, of "shit or bust" [Interview, Jones, 19 July 1990]. He would not have the luxury of a carefully considered development for efficiency auditing but be forced to operate in the face of often openly hostile resistance. Despite an appreciation in Parliament that "tangible benefits cannot be expected overnight" [Street, HR debates, 7 November 1977, p.2866] and co-ordinate suggestions from the *Working Party of Officials* [1977] and the RCAGA [Report, p.377] Jones was to find that the advice which he received from the public

7. He was appointed as a First Assistant Auditor-General [Division 2, Level 3].

8. For various reasons not all respondents who were members of the EAD are able to be identified in print. A list of names can be made available on request. All Respondents who are not named worked in the EAD for varying periods during 1979-84.

service grapevine was prophetic. The American Comptroller General Elmer Staats⁹ also urged that the new form of audit contemplated for Australia

to be successful must start modestly and expand slowly. There must be a gradual development built upon experience gained- the auditor must walk before attempting to run [Staats quoted in AAO, *Submission 2 to the RCAGA*, Attachment 21, 1974; see also *Report of Working Party*, 1977, p.X].

Steele Craik expected that four to five reports a year would be issued in the first two years. Even this he thought might be pushing things. Considering it took the Americans 10 years to establish performance auditing he saw that the first few years would be a slow learning experience [*JCPA Conference 1977*, pp.39-40; also *RCAGA*, Vol.4, Submission 4F, pp.159, 172].

The task which confronted Jones was immense, sensitive and politically perilous. The Commissioner of Taxation warned that

it would be extremely difficult for an outsider, such as the typical audit inspector working for the Auditor-General to pit his judgement against the senior executives of an organisation as to whether the activities are efficient ... (L)imits on the experience and knowledge (of efficiency auditors) ... would place them at a disadvantage [see also similar warnings by Staats in Schumacher 1978, p.52].

In addition, Jones was starting under the weight of extravagant hopes for efficiency auditing [see the comments of: *The Canberra Times*, 27 February 1976; Willis, HR debates, 25 October 1978, pp.2296-7; Connolly, HR debates, 25 October 1978, p.2299; Wriedt, Senate debates, 1 March 1979, p.431]. *The Australian*, for example, expected that efficiency auditing would put an end to the "game" where "(E)very year ... the Auditor-General takes the public service to task for its waste, inefficiency ... Every year ... the same promises to get things right. But nothing happens" [20 September 1979].

9. Staats had been brought to Australia in 1977 for a lecture tour by the Australian Society of Accountants (ASA) [Australian Society of Accountants 1977].

The EAD commenced operations with only 13 staff¹⁰ [see the *Duty Statement* of John Jones, PSB, 1978], prompting one former member to observe that the limited resources of the EAD was an intentional ploy to hobble its activities: it was designed to act as a form of damage control built into the EAD from the start [Interview, Respondent 3, 20 July 1990]. Jones was given sufficient positions for two Assistant Auditors-General, five Class 11, five Class 9 and 10 Class 7 officers [AAO, *Briefing Notes*, 1981, p.2]. Only the two section heads of the EAD had been recruited by the Auditor-General when Jones commenced work¹¹: Phil Mazey had been brought from the Management Service Division of the PSB and Joe Cosgrove from the Auditor-General's office [JCPA, *Australia Post Inquiry*, Minutes of Evidence, Jones, 1985, p.406]. Mazey was not an accountant whereas Cosgrove was very much the archetypal auditor [Respondent 3, 20 July 1990].

Jones was given autonomy to select the balance of his personnel and proceeded throughout early 1978 to finalise his staffing, with approximately one third of the EAD coming from within the Office of the Auditor-General [Jones, Minutes of Evidence, *Australia Post Inquiry*, JCPA, 1985, p.408; *18th Conference of Chief Auditors*, 1978, p.8]. The remainder were obtained, after advertising, from other branches of the public service¹² and private industry [Interviews with EAD personnel, July, August, September 1990]. The one common denominator Jones and Steele Craik sought in all appointments was strong analytical skills; they wanted "numerate analysts" [Interview with Jones, 31 August 1990; AAO, *Mix of Skills*, 1978e, section 3.5; Great Britain, 1981, PAC, *Inquiry into the Role of the Comptroller and Auditor General*, Minutes of Evidence, Steele Craik, 11 June 1980, p.4]. Jones expected that over the first five to

10. According to Jones the EAD reached a maximum staffing figure of 25 [JCPA, 1985, *Australia Post Inquiry*, Minutes of Evidence, Jones and Hill, pp.410,241 and *Report of the Post Office Inquiry*, 1986, p.20].

11. In effect, therefore, the EAD had been formed in late 1977.

12. These included the Public Service Board's Management Division and the Bureau of Transport Economics.

six years the mix of skills in the EAD would change with increasing emphasis given to systems analysis, operations research and management consulting [AAO, *Mix of Skills*, 1978e, section 6.8]. Other qualifications which were seen as desirable for performance auditors were: constructive scepticism, a sense of humour, "common sense" and an independent frame of mind [Cosgrove, September 1980, p.13; Epps 1979, p.12]. Most of these preferred qualities were very different to those usually promoted for financial auditors where the emphasis was on precision, technical expertise and a detailed knowledge of financial regulations and relevant legislation.

Subsequently, the AAO decided to fill vacancies in the EAD by using short, 12 to 18 month transfers from the Office's other divisions. Although the EAD was established with a very particular brief it was expected to form a symbiotic relationship with the financial auditors based upon regular exchanges of information and movement of staff [AAO, *Efficiency Auditing and Relationships with Other Arrangements*, 1978, p.55]. No impediments were envisaged in the AAO to transfers from the financial audit divisions to the EAD. The status of officers, especially non-accountants, applying to transfer in the other direction was far less clear [EAD Minute, 17 October 1979; AAO, *Minutes of Administrative Staff Conference*, 6 July 1981].

According to Jones' *Duty Statement* he was to

- Direct, control and coordinate the activity of the EAD
- Liaise with senior colleagues in other central coordinating authorities on matters requiring consultation or joint development
- Be responsible to the Auditor-General for the development and implementation of the role of efficiency audit.

The duties of the EAD were to:

- Undertake the development and implementation of the extended role of efficiency audit by :
 - o defining the objectives of efficiency audit
 - o developing and continually testing and refining methodologies to achieve the defined objectives

- o preparing guidelines for audit teams on the conduct of efficiency audits
 - o preparing, in liaison with other controlling authorities, guidelines for Departments in developing measures of their own efficiency
 - o training audit teams in the methodologies
 - o selecting, implementing and evaluating efficiency audits
- Liaise with other Divisions of the Audit Office on such matters as:
 - o the selection of audit areas
 - o the relationship of selected audits to planned financial, compliance and operational audits
- Liaise with the Departments of Finance, Prime Minister and Cabinet and the Public Service Board as appropriate on:
 - o the revision of legislation
 - o the relationship of selected audits to efficiency reviews and program effectiveness reviews
- Prepare reports resulting from efficiency audits for transmission by the Auditor-General to the Parliament or in certain cases to Ministers
- Lead the development and training of all staff of the Audit Office in relation to efficiency audit
- Maintain a continual awareness of overseas practices in the efficiency audit field [*Duty Statement*, Public Service Board, 1978].

To achieve the tasks set for it the EAD was divided into two branches, with Jones having overall responsibility. In recognition of the absence of well developed efficiency audit methods and methodologies¹³ a 'Methodology Branch' was formed under Phil Mazey with the express aim of remedying these deficiencies but also to evaluate efficiency audits as they progressed. Lessons learnt would be monitored by the Methodology Branch and fed to all efficiency audit teams [AAO Minute, 9 May 1979, AAO ref. k79/23]. Responsibility for the training of audit teams, selection, implementation and final reporting of efficiency audits was given to the 'Co-ordination Branch' led by Cosgrove. This branch was also to liaise with and co-ordinate the activities of the EAD with other agencies, in particular the PSB and PM&C .

13. Something which the Canadians also recognised

6.2.2 Getting Started: Initial Problems and Prospects

The initial operational difficulties facing Jones in 1978 were daunting [see JCPA, *Australia Post Inquiry*, Minutes of Evidence, Jones' views, 1985, p.410]. These included:

- inexperienced staff
- apprehension on the part of potential auditees
- negligible statements of performance objectives for individual government agencies
- the need to construct tools and methodologies to guide efficiency audits. The immature state of efficiency auditing meant that there were no generally accepted efficiency auditing principles upon which the EAD could rely.
- an inordinate expectation level for the results of efficiency audits which had been generated in the community at large and within Parliament
- conflicting policy goals and, where they existed, contradictory organisational objectives
- defining inputs and outputs and relating them in a precise manner
- assessing the extent to which objectives were being achieved
- ensuring the co-operation and support of the financial audit divisions of the Auditor- General's Office [see JCPA, *Australia Post Inquiry*, the evidence of Steele Craik, 1985, pp.239-240]

Talberg¹⁴ believes that these problems amounted to giving Jones an impossible task [Interview, 30 May 1991]. Indeed, Jones would have to be Samuel's "incredible David" to succeed in his efficiency auditing mission [1977, p.151].

An early and persistent obstacle which the EAD would have to overcome was the characterisation of their work as 'audit'. There was a belief, which had been an institutionalised feature of public sector audit in Australia and Britain, that auditors

14. Michael Talberg was Secretary to the JCPA for much of the period 1979-84.

were nothing more than fault finders looking for 'gotchas'. The role of the auditor was to expose problems, certainly not to accord praise. Auditors were seen as risk averse with an obsessive and myopic concern for controls and processes rather than for program results. The efficiency auditors had to meet these well entrenched suspicions, which would be difficult to change over a short period, and overcome the defence mechanisms which the bureaucracy had developed to deal with the threat of exposure and censure. If the efficiency auditors had been designated as something other than auditors, for example consultants, then they would at least have had the opportunity to develop their own reputations instead of following in the heavy shadow of the financial auditors in the AAO.

It was well recognised, both within the AAO and by external agencies, that there was a dearth of performance auditing experience available to the new efficiency audit division [Connolly, HR debates, 1978, p.2296]. At the commencement of the EAD's operations Jones and Mazey were the only EAD members who were experienced in performance-type audits¹⁵ [Minutes of Evidence, JCPA, Australia Post Inquiry 1985, pp.407,408]. Giving recognition to instances of minor, or major, waste ie. poor economy, and observations on the fringes of efficiency using sections 51 and 54 of the *Audit Act* for authority, each carried out by people with essentially traditional accounting skills and tethered by a core concern for financial probity and regularity was vastly different to an audit function dedicated to efficiency and effectiveness. To fulfil these latter functions required a move from traditional accounting and audit skills; not a change in degree but in kind. Efficiency auditing required different skills, different evidential standards,

15. Another member of the EAD, Ross Laing, an industrial chemist, had gained extensive experience conducting 'operational audits' with BHP from 1974-78 and in particular had been largely responsible for changes to BHP's laboratory management as a result of efficiency reviews. It was this experience which gained him his position in the EAD [Interview, R.Laing, 31 August 1990]. For most of the EAD's initial recruits, however, they had no experience in performance appraisals.

Prior to Jones assuming leadership of the EAD the Auditor-General had sent two members of his office [R. Shearer and E. Donnelly] to the US to study performance auditing as conducted by the GAO which was recognised as a world leader in this area [JCPA, *Australia Post Inquiry*, Minutes of Evidence, Jones, p395]. Curiously, neither of these two men ever served with or advised the EAD, although they each produced voluminous reports of their observations at the GAO.

different organisation and management, different reporting requirements but above all a change in the auditor's approach to auditing.

The shortage of appropriate experience meant that progress initially would be slow¹⁶. Given the implicit pressures to show early results, any experience would have to be gained on the run. Jones' personal preference was to allow his staff a great deal of freedom in their tasks, to allow them "to learn by doing", an approach later advocated by Geist [1981, p.9; Jones, Minutes of Evidence, *Australia Post Inquiry*, JCPA, 1985, p.411]. This, he assured the JCPA, did not amount to letting "the Division simply invent their own way of undertaking efficiency audits and away they go" [p.411]¹⁷. Instead, review of the work of his audit teams was, according to Jones, a regular feature of his management approach to ensure the Division learnt from "what experience was telling us in the ways of do's and do nots" [p.411]. With hindsight he admitted this created the risk that mistakes would be made but at the time it seemed to Jones that the only other alternative was for him to lead all the audits. This, he argued, would have slowed the learning of Division E members and limited the number of audits.

Jones endeavoured to create a division which encouraged people to make contributions, to take the initiative; a division which provided opportunities for its members to use their considerable abilities¹⁸. Jones' door was always open to his staff; he was generally perceived by his staff as being prepared to give a fair hearing to any suggestions [Respondent 4, 30 August 1990]¹⁹. In many ways Jones attempted to create an incubator for ideas and methods to meet the new challenges of efficiency

16. To develop the necessary skills of the EAD staff both Jones and Steele Craik realised that there would need to be a "massive" commitment of resources to training programs, especially in the first two years [Steele Craik, JCPA Conference 1977, p.38].

17. Compare this with a similar approach by the Canadian state auditor.

18. Cosgrove described the EAD as: small, non-hierarchical and professional, emphasising a project team approach [September 1980].

19. One member of the EAD thought Jones made himself too available, allowed his subordinates too much say and was too patient with non-performers [Respondent 6, 27 September 1990].

auditing by encouraging the diversity of talents assembled in his office. Indeed, in the early days there was considerable interaction between all levels of EAD staff in the development of methodologies and philosophies [Respondent 4, 30 August 1990]. Jones' approach resembled that of an academic researcher, the approach which Normanton, the authority in this area at the time, advocated [1966, p.271].

Ultimately, two parliamentary committees of inquiry and several examinations of the Divisions' efficiency audit reports saw Jones' loosely coupled, collegial form of management as a fatal flaw in the work of the EAD and the source of its accumulating problems. The JCPA, for example, in its report on the Australia Post audit, concluded that "the efficiency audit of Australia Post was not well managed resulting in a lack of concise and timely reporting"[*Report*, 1986, p.4]. Ever since, these conclusions have been seized upon by the Audit Office to explain the problems experienced by the EAD, which eventually became an acute embarrassment to the Auditor-General, and to justify the Office's retreat from efficiency auditing [Monaghan 1985b, pp. 22-23; Hill 1986, p.67]. Management problems, however, can only be a partial explanation of the subsequent actions taken by the Auditor-General. If these had been the overwhelming source of the EAD's difficulties a change in management should have been the first attempt at correction. Yet, prior to dismantling the EAD there was no attempt to introduce new senior management in the EAD. Instead, the Auditor-General chose all but to extinguish efficiency auditing, starting with the dismantling of the EAD.

From the outset, the partial implementation of the recommendations of the RCAGA by the Fraser government prejudiced the EAD's chances of success in efficiency auditing. As established in Chapter 5, the RCAGA envisaged that efficiency auditing would be part of a raft of management reforms in the public sector primarily aimed at increasing the decision making freedom of managers. Instead, the Fraser government isolated efficiency auditing from any sustenance which a public sector ethos of managerialism and its associated structures, in particular clearly specified measurable objectives,

could provide. The efficiency auditors were placed on a promontory of audit reform which exposed them as an easy target for dissatisfied auditees and even their own financial auditing colleagues in the AAO.

6.2.3 The Relationship Between the EAD and the Financial Audit Divisions of the AAO

At the beginning of its work in 1979 the EAD was housed in a building separate from the main body of the Auditor-General's Office in Canberra; firstly in the Melbourne Building, then in 1980 the Una Porter Building. This separation of the efficiency auditors and the line or financial auditors proved to be more than physical for it symbolised the chasm which divided the methods and the audit philosophies of the two groups [Expenditure Committee, *Review of the Efficiency Review Mechanisms*, Minutes of Evidence, Jones, 2 July 1985, p.28; see also the evidence of Ryan (partner in Touche Ross) for similar views, p.47]. Within a very short time after the EAD was formed a high degree of intolerance and antagonism came to characterise the relations between the two offices [AAO, *Mid-term Review*, 1981b, p.29]. This was not helped by members of the EAD who, contrary to Jones' views, came to see themselves as an elite group which had been entrusted with a complex and intellectually demanding task [Jones, *18th Conference of Chief Auditors*, 1978, p.1; Respondent 4, 30 August 1990]. To little effect, Jones attempted to play down the formation of a separate division by emphasising that this was to be a temporary arrangement for the early development phases of efficiency auditing [Jones, *18th Conference of Chief Auditors*, 1978, p.1].

Jones' open and relaxed style of management, in contrast to the formal and hierarchical management of the rest of the AAO, further contributed to a feeling of the difference of the EAD and its 'mission' [Respondent 4, 30 August 1990]. In these circumstances it is easy to understand the personal jealousies aroused when the more highly controlled and seemingly more accountable financial auditors gazed across to their more relaxed, high profile and, if only in the eyes of the press, dynamic counterparts [Interview with M.Talberg, 30 May 1991]. The progressive professional ostracism of the EAD from their financial audit colleagues only served to strengthen the cohesion of the EAD and to convince them of their importance. Consistent with the antipathy between the two groups of auditors, the expected secondments mentioned earlier between the two groups failed to develop as did projected joint audits [AAO, *Mid Term Review*, 1981b, p.29]. According to Jones, his division had done all that they could to gain the support of the financial auditors in joint audit projects but their advances had been consistently rebuffed [AAO Minute, Jones to Auditor-General, 25 March 1982].

At the root of much of this rivalry between the two groups of auditors was a high degree of professional intolerance emanating from both sides. The accountants in the audit divisions A, B and D, the traditional financial audit divisions, saw it as incongruous to have non-accountants carrying out audits; to them audit and accountancy were synonymous²⁰ [for example see Auditor-General Brigden's comments, *Minutes of the Administrative Staff Conference*, 6 July 1981]. All their training and professionally acquired instincts predisposed the accountants in the AAO to resent and be suspicious of other occupations calling themselves auditors and professing that they knew how to carry out efficiency audits better than the accountants. Accordingly, the Audit Office was no place for someone without aspirations to be an accountant [Expenditure Committee, *Review of Efficiency Review*

20. This was contrary to Normanton's conclusion that there was no compelling reason why state audit should be entirely conducted by qualified accountants; nor is there any strong reason for supposing that a training in accounting is best calculated to develop the essential characteristic of a state auditor, which is 'flair' [1966, p.271].

Mechanisms, Minutes of Evidence, Paul, 1985, pp.350-1]. The financial auditors tended to be scathing in their descriptions of the work of the EAD, regarding the efficiency auditors as not really auditors. They were particularly critical of what they perceived were attempts by the EAD to use the new Section 48 of the *Audit Act*, which covered efficiency auditing, to create artificially out of existing performance audits (project audits) a separate form of audit and to intentionally mystify it by disparaging accounting skills and claiming that it was understandable only to a select cabal [C.T. Monaghan 1986, p.17; Hill 1985, p.8]. In this way the EAD was accused of erecting barriers to the participation in efficiency auditing of the other divisions of the AAO. The EAD complained that the financial auditors did not understand and made little attempt to understand efficiency auditing, preferring instead to try to obstruct its introduction [Epps 1979, p.11]. Indeed, the comparatively unstructured approach to audit of the EAD was foreign to the traditional auditors who found it difficult to understand the worth of the work carried out by the EAD [Respondent 4, 30 August 1990].

While ever Steele Craik presided over the Office the EAD had a champion who was determined to give it time to establish itself. This changed when Steele Craik retired. Whereas Steele Craik had spent most of his career with the Treasury and was not an accountant²¹, his successor Keith Brigden came from the Taxation Office with a high appreciation of accounting. Brigden's reactions to the EAD indicated an inability to see auditing, whatever its nature, as anything other than the province of accountants. Brigden therefore favoured an accounting qualification as the essential requirement for all auditors in the AAO [Respondent 4, 31 August 1990].

The difficulties under which the EAD was expected to work, including the antipathy of its financial auditing colleagues, compounded the adverse reactions to its first

21. Steele Craik had a B.A. (Economics). His position did give him membership as a Fellow of the Australian Society of Accountants.

efficiency audit reports. In section 6.3 following the criticisms of the Expenditure Committee are shown to have been particularly damaging to the EAD. This section also illustrates the persuasiveness of auditee objections to efficiency auditing and the strains the criticisms were placing upon perceptions of the independence of the AAO.

SECTION II: REACTIONS AND RETREAT

6.3 THE EAD UNDER FIRE

6.3.1 The Parliamentary Inquisitors

In concert with the recommendation of the *Working Party of Officials* [1977] the Government decided that the new House of Representatives Standing Committee on Expenditure²² [Expenditure Committee] and the JCPA would share the responsibility for reviewing efficiency audits. On an informal basis the Chairpersons of each committee would meet and decide on the distribution of reviews. To enhance the co-ordination between the two committees the chairpersons were made ex-officio members on the other committee²³.

The JCPA's²⁴ standing as a statutory financial committee of the Parliament and its strong powers of coercion and punishment has meant that it has enjoyed a pre-eminent position amongst parliamentary committees [for its powers see the *Public Accounts Committee Act*, sections 11-21]²⁵. The idea for the Committee, although not its form, was borrowed from Gladstone's Public Accounts Committee established in 1861 in Britain²⁶. Although it has been primarily concerned for the interests of Parliament, the JCPA has not always retained the support of Parliament²⁷. In 1932, for reasons of economy, during the height of the depression the Committee's operations were suspended until 1951 when Professor Bland was successful in restarting its work.

22. The RCAGA had also recommended that a special committee be established to review efficiency audit reports [*RCAGA Report*, p.50].

23. To enable the Chairperson of the Expenditure Committee to sit on the JCPA the Public Accounts Committee Act had to be amended [see Senate debates, 18 May 1976, p.1671 and 27 May pp.2070-1].

24. The Committee was drawn from both the Senate (3 members) and the House of Representatives (7 members), hence its description as a Joint Committee. The first Committee met in 1913.

25. Despite its status, Weller has referred to the JCPA as a "toothless tiger" and that for its members it was a "political dead-end" [1975, p.1].

26. Einzig believes that the first parliamentary accounts committee appointed in "modern times" was in 1690 [1959, p.168]. Gladstone saw the PAC primarily as a means of checking the accuracy and regularity of the Executive's accounts and nothing more. Gladstone was obsessive about public thrift and avoiding waste. He saw the Committee as the means of enforcing a "rigid exactitude" in public financial affairs [Chubb 1952, p.35]. The PAC and the Treasury would be close partners in enforcing control [see Chapter 3].

27. For more on the history of the JCPA see its *Report* 1981-2, pp.1-9. See also Degeling 1988, p.24.

The original purposes of the JCPA were progressively widened to where in the 1970's its concerns extended beyond being overwhelmingly an accounting and financial watchdog to encouraging "more effective use of public funds" [see *Public Accounts Committee Act*, section 8(1)(b); Connolly²⁸, JCPA Conference 1977, pp.8-9]. According to the *Public Accounts Committee Act* of 1951, amongst other duties the JCPA was to examine the Treasurer's accounts of receipts and expenditures which had been transmitted to the Auditor-General for audit under section 50(4) of the *Audit Act* [section 8(1)(a)]. It was also to examine "all reports of the Auditor-General (including reports of the results of efficiency audits) " [*Public Accounts Committee Act*, section 8(1)(ab)]. At each JCPA hearing a representative of the state auditor was present to assist the Committee with its questioning. Thus, following the British example, a close association developed between the JCPA and the state auditor born out of many years of mutual support and continuous association demanded by the *Public Accounts Committee Act*. Despite the close working relationship between the two, the Auditor-General professed to be still aware of the importance for his independence of a measure of separation [Great Britain, 1980, PAC, *Inquiry into the Role of the Comptroller and Auditor General*, Minutes of Evidence, Steele Craik, 11 June, p.2]²⁹. In the economic climate of the 1970's the JCPA's mandate came to be seen as inadequate to promote a more economically resolute public service.

After visits to Britain in 1965 and 1973 Malcolm Fraser had returned greatly impressed with the newly established House of Commons Expenditure Committee [Fraser, HR debates, 8 April 1976, p.1498; Weller 1975, p.1]. Subsequently, in 1976 he decided that because of the "enormous inefficiency in expenditure" during the previous Labor Government Australia could also benefit from a parliamentary Committee which could provide a "far greater in-depth examination of public expenditure in relation to

28. Chairman of the JCPA. For biographical details of Connolly see *Business Review*, 2 October 1982.

29. For criticisms of the relationship between the Auditor-General and the JCPA see HR debates, 28 April 1976, p.1712; Morris, 29 April 1976, p.1774 and Lusher p.1776.

effectiveness and economy" [HR debates, 8 April 1976, p.1497]. The Prime Minister described the establishment of an Expenditure Committee as marking

an important step in the Government's policy of strengthening the parliamentary system. It is fundamental to an effective system of representative government that the people's representatives should be able adequately to supervise and review the activities of government administration ... The ultimate control of Parliament over the Executive is its control over, and scrutiny of, the expenditure of money. This is the fundamental principle of democracy which this government recognises [HR debates, 8 April 1976, p.1497].

Whereas the JCPA was concerned with past spending, the new Committee would concentrate on the implementation of policy, although it was not to question policy³⁰ [see Martin, HR debates, 15 November 1979, p.3124]. It was given very wide powers to examine all government bodies, including government business undertakings³¹ [see *Operational Guidelines of the Expenditure Committee*, HR debates, 8 April 1976, p.1499]. Consequently, both departments and the state auditor were apprehensive of the role and approach of this new, untried committee. Assured of the Prime Minister's support as his creation³², the Committee set about to distinguish itself from the JCPA by establishing a reputation as a committee of financial restraint, although it objected to being described as a committee with cost minimisation as its central aim [Expenditure Committee, *A Year's Experience*, 1977, p.1]³³.

The high goals expressed for the Expenditure Committee were not enough to secure the wholehearted support of the Opposition, still reeling from their ejection from

30. For details of its charter see HR debates, 8 April 1976, p.1496 and the Committee's report *A Years Experience* [1977, p.iii].

31. The Committee's first report, which was laid before Parliament on 1 June 1977, was on accommodation for married servicemen [HR debates, 1 June 1977, p.2282]. Over its life between 1976 and 1987 the Committee produced 35 reports, eight in the first five years. See Reid and Forrest [1989] for an assessment of the Committee.

32. Of the Committee's 12 members seven, including the Chairperson, would be nominated by the Prime Minister with the remaining five members coming from the Opposition in the House of Representatives.

33. The first Chairman, Garland, was an influential government figure who was well known as a critic of government waste [see the *Sun Herald*, 19 September 1976].

government less than six months earlier. Crean (Labor) complained that the Committee would not be able to keep out of policy matters if it was doing its job properly [HR debates, 29 April 1976, p.1769]. Other members drew attention to the problems which the proposed Committee's British counterpart had experienced and instead argued that the existing JCPA be reformed to provide the financial scrutiny desired [see HR debates, 28 April 1976, Morris pp.1773-5, Scholes pp.1709-10 and Hurford p.1714].

As a latecomer to the process of parliamentary scrutiny of the Executive's finances the Expenditure Committee objected to the "cosy" relationship between the state auditor and the JCPA and the Auditor-General's reluctance to engage with the Expenditure Committee on similar terms during the Committee's review of the first efficiency audit report [Interview with L. McLeay³⁴, 15 August 1991; John Brown, HR debates, 17 September 1980, pp.1379-80]. In a thinly veiled threat Brown, a member of the Expenditure Committee, advised Auditor-General Steele Craik to "think very cogently on this subject and perhaps come to a conclusion which aligns with ours" [p.1380].

Steele Craik has admitted that he found it difficult to work with the Expenditure Committee because of its aggressive approach. He was also repulsed by the Committee's suggestion that instead of being a partner with the Committee, as the Auditor-General was with the JCPA, he would appear at the Committee's hearings in an adversarial role. The Auditor-General and the auditee would be pitted against each other with the Committee arbitrating between them. To Steele Craik this approach would damage the already tenuous co-operative relationship which then existed with the departments and which he had worked hard to achieve [AAO, *Briefing Notes*, 1978, file K78/45, folios 53ff; Interview, Talberg, 30 May 1991; Interview with Steele Craik, 11 March 1994]. The Committee's approach convinced him that it was out to "get him" and his Office [Interview with Steele Craik, 11 March 1994].

34. McLeay had been Chairman of the Expenditure Committee for part of the period 1979-84.

Prior to the first hearings of the Expenditure Committee, the AAO was aware that departmental apprehension of embarrassment and exposure by the Committee could be a source of trouble for the auditors [AAO, *Efficiency Auditing, Second Division Seminar 1978h*, point 2.1]. According to one former secretary to the JCPA, the Expenditure Committee was in a hurry to make its mark in public sector management and accordingly could be more caustic than the JCPA [Talberg, Interview 30 May 1991]. Relations between Steele Craik and the Expenditure Committee plummeted after Steele Craik complained to the Prime Minister and to the Committee's chairman about the strident manner of the Committee in its dealings with the AAO and in its approach to reviewing the first efficiency audits [Aldons³⁵, Interview, 16 August 1991]. It was unlikely that the EAD could expect any concessions from this Committee.

6.3.2 Criticisms of Efficiency Audits

Between 1979 and 1984 the EAD started 16 efficiency audits, 15 of which were eventually completed. Of the audits completed only four were reviewed and reported upon by the parliamentary committees before the EAD was finally shut down in May 1984: three were reviewed by the Expenditure Committee and one by the JCPA [see Figure 6.1 below]. Missing from Figure 6.1 is the audit of the counter services of Australia Post³⁶. This audit, which was commenced on 30 June 1980, dragged on until May 1985 when it was terminated before completion by Auditor-General Brigden. When, amidst allegations of a cover-up to protect Australia Post which had recently been the subject of heated criticism [Minutes of Evidence, *Australia Post Inquiry*, JCPA, 7 August 1985, p.237; *The Age* 26 June 1985] and after over four years on the audit no report was issued to Parliament³⁷, an inquiry was conducted by the JCPA in 1985 [*National Times*, 14 December 1985; *Canberra Times*, 26 November 1985; HR

35. Secretary to the Expenditure Committee at the time.

36. See Appendix 6.1(a) for details of this audit.

37. A draft report was leaked to the press by someone from the AAO. Concerted efforts to reveal the source of the report eventually proved fruitless [AAO Minute, Hill to Hunt, the AAO Security Officer, requesting an investigation of the leak, 17 May 1985].

debates, 21 May 1985, p.2768]. The inquiry was not welcomed by everyone. Within Parliament the inquiry's concern for the motives of the Auditor-General in terminating the audit was seen as detrimental to efficiency auditing and to the AAO's already battered standing and reputation [Minutes of Evidence, *Australia Post Inquiry*, JCPA, 7 August 1985, p.284].

Figure 6.1

EFFICIENCY AUDITS STARTED BY
THE EFFICIENCY AUDIT DIVISION³⁸

<i>EFFICIENCY AUDIT</i>	<i>Auditor- General AT START</i>	<i>Auditor- General AT FINISH</i>	<i>START</i>	<i>FINISH</i>	<i>ELAPS- ED TIME (months)</i>	<i>REVIEWING COMMITTEE and DATE REVIEW REPORTED</i>	
DAS Property Function	Steele Craik	Steele Craik	8/1978	4/1980	20	Expenditure Committee 6/1981	
Nursing Homes	Steele Craik	Steele Craik	4/1979	2/1981	22	Expenditure Committee 2/1982	
Bilateral Overseas Aid Program	Steele Craik	Brigden	6/1979	10/1981	28	JCPA 5/1984	
Excise Duties ³⁹	Steele Craik	Brigden	6/1979	3/1982	33	JCPA 10/1984	
ACT Public Hospitals	Steele Craik	Brigden	9/1980	5/1983	32	JCPA 12/1985	
Main Battle Tank	Steele Craik	Brigden	4/1980	5/1983	37	Expenditure Committee 6/1984	
Special Youth Employment Training Scheme	Brigden	Brigden	11/1981	10/1983	23	JCPA 6/1987	

38. See Appendixes 6.5 and 6.6 for more details on the chronology of the efficiency audits undertaken by the EAD. For the full names of the audits referred to in Figure 6.1 see Appendix 6.5.

39. See Appendix 6.1(b) for details of this audit.

Maintenance of Airways Facilities	Brigden	Bridgen	10/1981	6/1984	32	Expenditure Committee 6/1986	
Prohibited Immigrants Program	Brigden	Brigden	4/1983	6/1984	14	Expenditure Committee 12/1985	
Widows Pensions and Supporting Parents Benefits	Brigden	Brigden	9/1981	6/1984	21	JCPA 6/1987	
Collection of Sales Tax	Brigden	Brigden	1/1982	6/1984	29	Expenditure Committee 12/1986	
Disability Pension and Service Pension Schemes	Steele Craik	Brigden	8/1980	6/1984	46	JCPA 6/1987	
Observation Program of the Bureau of Meteorology	Brigden	Brigden	8/1982	10/1984	26	Nil	
OTC control over manpower and property	Brigden	Brigden	9/1982	9/1984	24	Expenditure Committee 11/1986	
Export Development Grant Scheme	Brigden	Brigden	4/1983	9/1984	17	JCPA 6/1987	

[Adapted from Hamburger 1987]

While this chapter does not include the efficiency audit reports reviewed after May 1984, the concerns expressed by the two reviewing committees on the audits of the Department of Administrative Services Property Function, the Nursing Homes, the Bilateral Overseas Aid Program and the Main Battle Tank were representative of similar concerns expressed later⁴⁰. Unlike the JCPA, and given its need to establish its legitimacy alongside its older partner, the Expenditure Committee was not constrained in its judgements of the work of the state auditor by past close associations with the

40. See for example the JCPA report on the efficiency audit of the ACT Public Hospitals [1985] and the Expenditure Committee report of the Maintenance of Airways Facilities [1986]

state auditor and by the glow of mutual admiration. Accordingly, the Expenditure Committee was far more critical of the AAO than the JCPA. It was particularly interested in the approach to efficiency auditing of the AAO in comparison to the content of the reports.

Criticisms of the EAD's work from the review committees and from auditees centred on a number of facets of the efficiency auditing process:

- the quality of the EAD's audit work as evidenced in the calculations and the depth of analysis in the reports
- the naivety and incompleteness of the findings
- the presentation of the audit reports
- the length of time taken to complete and report on an efficiency audit
- at least initially, an absence of recommendations for improvement
- a tendency to encroach on policy issues
- a lack of follow-up work or procedures to monitor the implementation of recommendations.

The review of the audit of the Department of Administrative Services (DAS) Domestic Property Function set the framework and the benchmark for later reviews⁴¹. Figure 6.1

41. As a preliminary move in the introduction of efficiency audits, the PSB on the 22 June 1978 wrote to the peak employee councils, at the request of the Auditor-General, informing them of the status of efficiency auditing in the legislative process. The letter noted that, while legislation had not been completed which would allow the AAO to commence efficiency auditing, the Government had indicated its intention in November 1977 to accept the recommendations of the Working Party of Officials to introduce efficiency auditing. In the meantime, the Board reassured departments that only if invited to do so would the Auditor-General be conducting any efficiency audits. The Auditor-General, as preparation for the inevitable legislative sanction, would be conducting a series of feasibility studies of about four weeks in duration to "ensure that full scale efficiency audits in the areas ultimately selected will produce worthwhile results". The Department of Education was selected as the first target for a feasibility study. The PSB reassured the peak bodies that the "main thrust of efficiency auditing will be on how well organisations function to meet their objectives" and that the ultimate goal was encouraging improvement in administration [PSB, 22 June 1978, ref.78/3715]. In a note attached to a letter from the PSB informing the AAO that it had informed the peak councils as per the AAO's wishes Jones discussed with Cosgrove the importance of maintaining an arms-length position in any relations the efficiency auditors might have with the peak employee councils. Jones noted that his division "have enough problems as it is" and did not want to add to these by getting caught up with union issues, "if only for the sake of ... (the Auditor-General's) independence". He stressed that it should be the Board's responsibility as the central employer organisation to deal with

shows that it took nearly two years to complete this one audit even though Steele Craik had anticipated five efficiency audits in the first year [Steele Craik 1979, p.8; AAO Minute, 9 May 1979, ref.k79/23]. With the EAD eager to commence its work, and with the blessing of Steele Craik, Jones was able to obtain an invitation from DAS to conduct a performance-type audit on its domestic property management function before the audit amendments had been passed⁴². Strictly speaking, therefore, the audit did not commence as an efficiency audit. Enthusiasm for the audit had been shared by DAS which wanted assistance from audit findings for reorganisation negotiations in which it was currently engaged with the PSB.

In general, the Expenditure Committee was complimentary about the approach taken in the DAS report by the AAO and believed that efficiency auditing "had the potential for becoming the most comprehensive administrative review mechanism available to the Parliament" [Lusher⁴³, HR debates, 9 June 1981, p.3337]. The Committee praised the normative model built by the EAD to provide a set of objectives to evaluate the Property Function⁴⁴ but was critical of the way the report itself was constructed with findings scattered throughout the report⁴⁵ [Expenditure Committee, *Report on Efficiency Audit of the Property Function, 1981*, p1]. The Committee reserved its

informing staff associations about the declaration of an efficiency audit in an agency [AAO, ref.78/34].

42. Later in Parliament the EAD was criticised for starting the audit and the Auditor-General for recruiting efficiency auditors before the amended Act was in place. In anticipation of the efficiency audit amendments the EAD also undertook four section 54 "in-depth" operational audits which were reported in a 1978-79 Supplementary Report by the Auditor-General.

43. Lusher was a member of the Expenditure Committee.

44. Jones described his approach as

to set up a general evaluative framework based on the idea of the audit continuum, a top down approach ... and to develop procedures, perspectives and criteria within this framework in the conduct of 'real' EA's to be reported publicly [AAO Minute, Jones to the Auditor-General, 10 April 1980, para.2].

As part of this process, normative views

of the primary functions necessary for effective program performance, or normative criteria as to the proper relationships between organisations and their environments, ... (are compared to) actual performance. ... When normative requirements do not accord with practice their impact is assessed, that is, transactions or cases are appraised to determine whether the lack of such accord significantly contributes to failures and inefficiencies [Cosgrove, September 1980, section 10a].

45. See Appendix 6.3 for information on the developed form of the efficiency audit reports.

strongest criticisms for the absence of specific, implementable recommendations for change and the lack of any follow up procedures to ensure that the audit would make a difference [*Report on Efficiency Audit of the Property Function, 1981*, p2; see comments in *The Canberra Times*, 11 June 1981]. Before the Committee, Jones and Deputy Auditor-General Hill pointed out that the Auditor-General had never been expected to make highly specific recommendations and argued that to do so would erode the Auditor-General's independence by placing him in a position where he may have to return and judge his own recommendations [Expenditure Committee, *Review of the Property Function Efficiency Audit*, Minutes of Evidence, 6 March 1981, pp307-8]. The role of audit was diagnosis; it was up to departments to come up with a cure [AAO, *Review of Progress*, September 1980, p.4]. The PSB also weighed-in heavily against the Auditor-General's reluctance to make clear recommendations because of his "desire to preserve this *so-called* independence" (emphasis added) [Expenditure Committee, Minutes of Evidence, *Review of the Property Function Efficiency Audit*, Tanzer (PSB), 26 February 1981, p.262].

Although DAS originally had been enthusiastic about the audit it soon saw its error and strongly criticised the way the Property Function Report did not

fully recognise the range of subtleties and sensitivities which are involved in many property activities. The sole criterion of the property function is not its cost-effectiveness [Expenditure Committee, Minutes of Evidence, Property Function Audit, Submission of DAS, 26 August 1980, p.15].

In its review of the Nursing Homes efficiency audit⁴⁶ the Expenditure Committee praised the suggestions which this time the report contained [Expenditure Committee, *Report of the Review of the Nursing Homes*, 1982, pp.8,9] and commended the AAO on the improved presentation and the quality of evidence [p.1]. In a similar manner to DAS's earlier criticisms, the Committee, however, questioned the subjectivity and

46. See Appendix 6.1(c) for details of this audit.

"reality" of some conclusions contained in the report [pp.6,9]. This time it was unhappy with the tendency of the report to go beyond matters related to administrative efficiency and to stray into "basically political problems ... It *maybe* that these matters are not appropriate for discussion in an efficiency audit report"⁴⁷ [p.9; *Sydney Morning Herald*, 26 February 1981]. While the review was in progress, in a confidential memorandum to the Auditor-General Jones gave some insight to the AAO's relationship with the Committee at this stage by attacking the Committee's report. He claimed that there had been dissension in the Committee about the opinions expressed in the report, the government majority on the Committee winning the day, and that the Committee's secretariat was incompetent [AAO Minute, 25 March 1982].

Auditee criticism of efficiency auditing seemed to increase in intensity and sureness with each new efficiency audit and the unfavourable reviews of the audit reports. Equally determined, the Auditor-General affirmed his intention that his Office would not tolerate this "increased harassment by auditees" [Executive Staff Conference, 29 October 1982; on auditee opposition see also AAO Submission to Interdepartmental Committee (IDC) 1982, p.7]. Almost invariably the efficiency auditors found the reaction of the auditees was to argue

that the areas of professional decision making are beyond the accountancy trained auditors to understand, even less to detect weaknesses and daring to recommend change [(Deputy Auditor-General) Hill, 1986, p.64].

The Australian Development Assistance Bureau in its attack on the Bilateral Overseas Aid Program audit objected to insufficient recognition in the report to the "complexity and unpredictability of aid administration" [JCPA, *Report of the Review of the Efficiency Report of the Bilateral Overseas Aid Program*, 1982, p.46]. They complained that many of the recommendations had been implemented in the course of

47. It appeared that the Committee was itself still uncertain how far the state auditor should venture into policy. In its *A Years Experience* [1977] the Expenditure Committee had conjectured about the proper role of the state auditor in reviewing program effectiveness reviews. It provided arguments for both sides and then decided not to make a judgement.

the audit and the use of a normative model overlooked the reality of resource constraints in which the Bureau operated [p.46].

Encroachment on policy issues by the auditors was also noted by the JCPA in its review of the Department of Foreign Affairs' Bilateral Overseas Aid Program⁴⁸ efficiency audit but was accepted as part of the process of bedding-down the new audit approach [JCPA, *Report of the Review of the Efficiency Report of the Bilateral Overseas Aid Program*, 1982, p.44]. In a more supportive vein than the Expenditure Committee, they discounted most of the auditee criticisms as premature judgements which were

a product of the witness's ... (ie. the auditee's representatives which appeared before the JCPA) lack of familiarity with the efficiency auditing concept and efficiency auditing procedures, a defect which the PAC to some extent shares [JCPA, *Report of the Review of the Efficiency Report of the Bilateral Overseas Aid Program*, 1982, p.45].

The Auditor-General assured the Interdepartmental Committee, then conducting its Review of Public Sector Efficiency Review Mechanisms, that encroachments on policy were not intentional and that he was very aware of the implications of this for his independence⁴⁹ [AAO, Submission to the IDC, *Review of Efficiency Audits*, April 1982, p.5; Mazey 1980, p.3; Jones, *The Age*, 27 February 1978]. Very early the efficiency auditors had made it clear that while they were concerned with the upper end of the audit continuum they would take policy as given. This they believed did not preclude them from examining

the timeliness, accuracy and general value of the policy advice generated by administrators, and extend the examination to draw conclusions as to whether the best options for the achievement of policy objectives have in fact been identified and implemented [Mazey 1978, p.23].

48. See Appendix 6.1(d) for details of this audit.

49. With considerable prescience Jones had warned his teams of auditors of this problem in 1978 [AAO Minute, Jones to the EAD, June 1978, p.11]. State auditors in Britain and Canada were also excluded from questioning Executive policy [see chapter 4].

An effective form of resistance to any policy incursions by the state auditor had been to question the effect that such inquiries would have on his independence. It was argued that the state auditor could not investigate policy effectiveness and maintain his arms-length approach to the Executive. Policy was about politics. The privileged and powerful position of the state auditor had been granted on the understanding that he did not comment on the goals of the Executive. A constitutional pact had evolved between the Executive and state audit; the state auditor knew that the Executive would only tolerate him as long as he did not publicly criticise its policies. The Executive knew that the standing of state audit was fragile and its independence vulnerable. The surest way to bring discredit on state audit and to degrade its findings was to question the extent to which these findings were consistent with an independent constitutional position. Prior to efficiency audits this form of Executive defence was not a recurrent feature of the relationship between the state auditor and the Executive. It was not needed because the legal provisions governing financial and compliance auditing kept the state auditor's work circumscribed.

The auditors blamed any of their transgressions into policy on the problems they encountered in defining or, more usually, imputing objectives for Executive programs. Emphasis on the organisation's objectives and ensuring that they were clearly specified was for Steele Craik the feature which most distinguished efficiency auditing from the operational or project audits commenced in the early seventies [Great Britain, 1980-1, PAC, Minutes of Evidence, 11 June 1980, p.3]. Rutman [1983] and Schumacher [1978] have observed that efficiency auditing in its early stages was caught in a situation where it needed to have sets of organisation and program objectives to conduct efficiency audits but that these were either non-existent or were in a form which could not be used as a substantive basis for an audit.

In most cases because objectives did not exist⁵⁰; the auditors had firstly to come up with a set against which they could assess the agency's management of inputs [AAO, *Efficiency Audits*, 1979c, section 5.1; Expenditure Committee, *Review of the Property Function Efficiency Audit*, Minutes of Evidence, Jones, 6 March 1981, p.291; AAO, *Mid-term Review*, 1981, p.6]. This made them vulnerable to auditee claims that the objectives used for the audit were incorrect and therefore all audit conclusions based on them were also misleading [Expenditure Committee, *Review of Efficiency Review Mechanisms*, Minutes of Evidence, Fisher, Bureau of Labour Market Research, 1985, p.327].

The general neglect of objectives in the public service was a principal concern of the Senate Standing Committee on Social Welfare (Baume Committee) [1979] which was attempting to grapple with the problem of measuring the performance of departments responsible for the delivery of government social welfare programs. The Committee found that

there had been very few instances in which adequate goals have been established at government level ... (V)ery few departments state adequate objectives either for sections within departments or for programs that they operate [1979, pp.68-9].

It emphasised the importance of objectives against which to assess performance [p.65] and that these be not just broad generalised statements of intent, as had been the usual practice in the public sector. The Task Force on the Co-ordination in Welfare and Health [1976] could identify only clear *process* objectives in health and welfare services as opposed to those related to outcomes [referred to by the Baume Committee, 1979, p.67].

50. In the Department of Health objectives "were just beginning to be set but were yet too vague" [Hennessy, Evidence before the Senate Standing Committee on Social Welfare (Baume Committee), 1979, p.67].

If objectives were present they were usually vague, often unrealistic, hard to measure, multiple and conflicting [see Rutman 1983, p.9]. This of course suited politicians because it made it more difficult to hold them accountable for the performance of their department. In the absence of common, agreed objectives and performance standards across programs and departments, performance evaluation by the efficiency auditors was extremely difficult [Mazey 1978, p.15]. It was a problem which the PSB also encountered in its management reviews. The usual practice when the EAD commenced its work was for objectives to be

rarely consciously set ... at government level. The objectives of the authority are to a large extent set by tradition within the existing departmental framework and organisational structure. Thus, instead of consciously set objectives we have objectives of carrying on existing services and what are essentially means to an end become the ends in themselves [JCPA, 1979, *19th Conference of Chief Auditors*, p.13].

Sir Lennox Hewitt, Secretary of the Department of Minerals and Energy, when asked by the RCAGA to provide a copy of his department's objectives replied in surprise that he had

not previously encountered the suggestion of objectives for a Department of State. The Royal Commission would presumably not need anything more from the Department than a copy of the Administrative Arrangements ordered by His Excellency the Governor-General [quoted in Weller and Smith 1977, p.20].

The blurred boundary between effectiveness reviews and efficiency audits also caused the auditor to stumble into policy areas⁵¹ [Cosgrove 1981, p.81; AAO, Submission to the IDC, *Review of Efficiency Audits*, April 1982, pp.11-12]. Similar complaints were being voiced in Britain as the Comptroller and Auditor General (C&AG) grappled with

51. An example of the AAO's dilemma is the audit of the School-to-Work program in 1982. A Minute from Cyril Monaghan to the Auditor-General refers to uncertainty as to whether the Department of Education's guidelines are government policy. Monaghan believed that as they had been formulated by the Minister to the Australian Education Council they could be construed as a policy document and therefore the auditors should not examine the process by which they were derived [Monaghan to Auditor-General, 27 May 1982, ref. F82/273].

value-for-money issues [Great Britain, 1980, PAC Appendix XLI, Memorandum of the C&AG, p.160]. Jones and Steele Craik had decided to push efficiency auditing as far as they could towards policy effectiveness issues without actually questioning the policy itself. As a result of concerted attacks by auditees against this high risk approach to efficiency auditing, Brigden later withdrew his auditors further down the audit continuum, away from the border between efficiency auditing and policy effectiveness reviews and closer to compliance/financial auditing.

The efficiency auditors were to determine whether departments had established procedures and organisational structures which could measure and report to management whether they were effective in implementing government policies [AAO, *Guide* 1978f, p.3]⁵². Departmental measures designed to pursue the efficiency and effectiveness of policies were the concern of the auditors, not the questioning of whether the objectives to which the policies were directed were appropriate. To clarify the auditor's position the AAO started referring to *administrative effectiveness* as opposed to *policy effectiveness*; the former was concerned with administrative procedures and program sub-objectives, as opposed to the overarching objectives of the program, and came within the ambit of the state auditor [see 1979 AAO Minute, K/79/26, point 2.].

Criticism of efficiency auditing culminated with the efficiency audit of the Management of The Main Battle Tank⁵³. After over four years on the audit which cost \$184,916, a report of only nine pages was produced. The Expenditure Committee could not understand how so little could come from such an extended and costly period of audit [Expenditure Committee, 1984, *Report of the Review of the Management of the Main Battle Tank Efficiency Audit*, p.2]. When queried about the disproportion between time spent on the audit and the length of the report the Auditor-General at first stated

52. See Appendix 6.4 for the steps in efficiency auditing.

53. See Appendix 6.1(e) for details of this audit.

that the report did not need to be any larger because nothing had gone "spectacularly wrong" with the management of the tank [Expenditure Committee, 1984, Minutes of Evidence, *Review of the Management of the Main Battle Tank Efficiency Audit*, 9 March, p.92]. When pressed, Brigden admitted that the real reason the Report had not gone any further was because the auditors had not provided sufficient audit working papers on which to base any additional conclusions⁵⁴ [Expenditure Committee, 1984, *Review of the Management of the Main Battle Tank Efficiency Audit*, Minutes of Evidence, 7 March, p.99].

Unlike the other efficiency audit reports which had been issued separately in individual yellow booklets, the Main Battle Tank report was buried between pages 181-9 of the Auditor-General's *Report Upon Audits, Examinations and Inspections under the Audit and Other Acts* in May 1983. If the Auditor-General had hoped that here the report would attract less attention he was badly mistaken. Parliament, the Expenditure Committee and the press took his actions as an attempt to hide incompetence in his Office and to escape the difficulties which efficiency auditing was creating [*The Australian*, 8 March 1984; *Sydney Morning Herald*, 24 June 1984]. Again the Expenditure Committee took the opportunity in its review, facetiously and rhetorically sub-titled *Who Was Outgunned?*, of the efficiency audit report, to indicate its "disappointment" with the audit. According to Deputy Auditor-General Hill [1985, p.13], the Committee took a "perverse delight" in criticising the presentation style of the report, the lack of evidence which would have allowed the Committee to evaluate the efficiency of the management of the tank and the general standard of the report [Expenditure Committee, 1984, *Report of the Review of the Efficiency Audit of the Management of the Main Battle Tank*, pp.2,.4].

54. Within the AAO David Berthelsen attacked the Auditor-General for making what he referred to as this "untrue" statement to the JCPA [AAO Minute, Berthelsen to the Auditor-General, 8 March 1984, p.4].

In the face of stiff criticism from the very powerful Department of Defence (DOD) Brigden could do little but agree that the audit had indeed gone off the rails, mainly by looking at the "wrong things" and attempting to be too comprehensive instead of being focussed on more manageable audit activities [Expenditure Committee, 1984, *Review of the Efficiency Audit of the Management of the Main Battle Tank*, Minutes of Evidence, Major General Gration, 7 March, p.34; see also Expenditure Committee, 1985, *Review of Public Sector Efficiency Review Mechanisms*, Minutes of Evidence, 3 July, p.132]. He blamed these faults on the inexperience of the efficiency auditors and poor management control within the EAD. After four poorly received efficiency audit reports Brigden had clearly had enough of the public pillorying of himself and his Office. In exasperation at the persistent probing of the Committee Brigden gave up any pretences of defending the efficiency audit reports to date or his auditors and exclaimed that he had "not been satisfied with one of them" [Expenditure Committee, 1985, *Review of Public Sector Efficiency Review Mechanisms*, Minutes of Evidence, 3 July, p.94]. Further, he criticised his Office and Parliament for placing the AAO in a predicament by joining "in the general enthusiasm to misunderstand what efficiency auditing was all about" [Expenditure Committee, 1984, *Review of the Efficiency Audit of the Management of the Main Battle Tank*, Minutes of Evidence, 9 March, p.91]. He described the efficiency auditing legislation as wrong for making "a great song and dance about ... efficiency auditing" when there was little to distinguish it from existing audits [p.94].

The extent of the criticisms of the Office of the Auditor-General generated by efficiency audits was unprecedented. Certainly the Auditor-General was no stranger to criticism from unhappy auditees; attacks from crusading Parliamentary committees and from departments united in a common cause to discredit efficiency auditing were another matter. In the past if the state auditor had been criticised as part of his financial and compliance audits he had been able to answer his detractors by reference to the well worn trails of precedent and a vast bank of financial regulations, directions and

legal pronouncements. With efficiency auditing the state auditor was very much on his own, however protective the JCPA may have felt. Eventually the continuing performance and reporting problems of the EAD lost it the support it needed of even the JCPA [Talberg, Interview 30 May 1991].

Well before the first efficiency audit commenced Samuel [1977] could see that the evaluation role of the efficiency auditors would be strongly resisted by both politicians and administrators alike; neither had anything to gain from being co-operative with the auditors. The auditors by definition were interested in what had gone wrong, not successes [p.151]. At first, the efficiency auditors preferred to be more optimistic, expecting that if efficiency audits were to be characterised by openness, not the well recognised secrecy of auditors, then departments would grow to respect them and not regard the efficiency auditor as an intrusion [Mazey 1978, p.19; AAO, *Guide*, 1978f; 18th Conference of Chief Auditors, 1978, p.1]. By early 1981, however, the hopes of the auditors were fast receding. Even before the first efficiency audit had been reviewed by the Expenditure Committee, departments had become adept at the tactics which would ultimately undermine the work of the EAD. Irrespective of the well publicised good intentions of the EAD, departments could not relinquish their past suspicions and repeatedly demonstrated their willingness to

apply a battery of arguments to refute audit findings - of the obfuscatory, irrelevant and, on occasion, dishonest kind [AAO Minute, Jones to the EAD, 22 May 1981, p.3].

With the introduction of efficiency auditing, noted Auditor-General John Monaghan, there came a rapid escalation within departments in the skills being brought to bear in an endeavour to dispute efficiency audit findings [1986, p.19; for similar comments see AAO, *Executive Staff Conference*, 29 October 1982]. The AAO came to recognise that the battle lines had been drawn between it and the departments and the very survival of its new function was held in the balance.

A most effective and unobtrusive tactic of the departments in defending themselves was to prolong the 28 day period which they were given by the amended *Audit Act* to examine and reply to a draft efficiency audit report [s.48F(3)]. The inordinate and unexpected delays in completing and reporting the early efficiency audits was a recurring criticism of the reviewing committees. The EAD protested that the delays were only in part of their own making, mainly as a consequence of the new requirement that the Auditor-General had to provide reasons for the opinions and conclusions in the report and the obligation to make recommendations [s.48F(2)(b)(c)]. Apart from this, efficiency audits could only be reported on a timely basis if auditees co-operated by responding promptly to the draft report. By delaying their responses departments were able to extend the audit period sufficiently to scuttle the legitimacy and relevance of audit conclusions [AAO Minute, 1979, k79/26, point 2].

Problems with reluctant auditees had begun to surface very early, prompting Jones to express his 'pessimism' in 1979 about soliciting "timely formal constructive comments from clients for much of the time" [AAO Minute, k79/26]. When it did come time to review the efficiency audits, in the case of the first three around two years after commencement of the audits [see Figure 6.1], departments could claim with some support that most, if not all, of the findings were either incorrect, now outmoded by policy changes in the meantime or had been implemented. They were thereby able to take credit for the work of the auditors. In this way efficiency auditing lost much of its immediacy, relevance and force. As an example, the Secretary of the Department of Veteran Affairs thought, in reference to his department, that "the rapidity of change has meant that the benefits of the report are not commensurate with the time and resources put into the project" [Quoted in Lidbetter 1985, p.4]. In the early days of efficiency auditing the new function needed to establish a record for making a difference. Timeliness in reporting was essential to preserve the relationship between

audit findings and any improvements and for efficiency auditing thereby to be taken as a serious contribution to improving public sector management. In the context of other problems raised by the reviewing Committees, it was difficult for the EAD to present a convincing argument against the departments which would not be construed as EAD excuses for their own problems.

To compensate for auditee delays the EAD took steps to streamline its own procedures for managing efficiency audits [AAO, *Mid Term Review*, 1981b, p.14]. Senior officers were told to tighten their control over fieldwork times and to work towards a draft report within 25 weeks. After the criticisms of the Expenditure Committee, timely reports were now seen as being more important than reports which endeavoured to be cast-iron in their thoroughness and comprehensiveness [AAO Minutes, 5 and 22 May 1981]. From May 1981 Jones required monthly status reports and deadlines for each stage of the audits for which his audit team leaders would be held accountable. In an attempt to improve the output of efficiency audits in March 1981 Jones also introduced the concept of Limited Scope Efficiency Audits (LSEA). They were to be efficiency audits of reduced scope and take about half the field work time of 'major' efficiency audits [AAO Minute, Jones to EAD Staff, 12 May 1981]. Thus, contrary to later criticisms, Jones and Steele Craik did attempt to ensure that there was adequate control over the management of efficiency audits.

6.3.3 Further Problems for the State Auditor: The Berthelsen Affair and Questioning of the State Auditor's Independence

At about the time that the first efficiency audits were being reviewed in early 1981 the Auditor-General became embroiled in a controversy involving DOD and David Berthelsen, one of the AAO's auditors, which received considerable attention in Parliament⁵⁵ and which raised questions about the independence of the state auditor in practice. The Berthelsen 'affair' is particularly valuable for the purposes of this thesis as

55. See HR debates, 1 April 1980, pp.1507-56, 23 April, pp.2135,2195, 11 September, pp.1178-86, 17 September, pp.1396-1408.

a rare example of the exposure of how departments have been able to influence at high levels the work of the state auditor and for the ease with which this could escape the notice of Parliament.

Prior to coming to the AAO in 1980 Berthelsen had worked as a communications engineer at DOD's main Russell offices in Canberra. In this capacity he had access to information which he alleged disclosed poor management practices and gross financial negligence on the part of DOD's officers. In one case Berthelsen discovered that \$64 million had been paid for parts for equipment which DOD no longer used. When in late 1978 an inquiry was launched by the Joint Standing Committee on Foreign Affairs and Defence into management practices in DOD Berthelsen sent the investigating committee a submission and was asked to appear as a witness during the Committee's hearings in 1980. Before he accepted the invitation of the Committee Berthelsen obtained the permission of the Auditor-General. The day following his appearance before the committee Berthelsen was visited by a security officer from DOD and asked for the return of his security pass which, as was common practice, he had not surrendered when he left for the AAO. When the matter was raised before Parliament's Privileges Committee this visit was seen as an unnecessary and petty form of harassment which was meant to intimidate Berthelsen and others contemplating anything similar to Berthelsen. On the same day (25 October 1978) on which DOD visited Berthelsen the Permanent Secretary of DOD, Sir Arthur Tange, a very powerful mandarin of the Commonwealth Public Service, made representations to the Auditor-General to have Berthelsen removed from any audits connected with DOD [*The Age*, 17 December 1980]. Soon after, Berthelsen was taken off all DOD audits. Pressure was also exerted on the state auditor by other departments for similar treatment.

Parliament, which subsequently condemned the actions of DOD, was most alarmed by the surrender of the Auditor-General to the pressures of one of its largest auditees [Bowen, HR debates, 11 September 1980, p.1183]. According to Senator Georges, by

agreeing to reassign Berthelsen the independence of the state auditor from the Executive was seriously questioned:

what right have the departments to tell the Auditor-General who is to be in his employ ... (T)he Auditor-General who is vested by this Parliament with great powers, was prepared to get rid of one of his staff ... because he believed that heads of other departments would not co-operate with him ... unless he did so [HR debates, 17 September 1980, pp.1399-1404].

It was easy to make the imputation from the state auditor's decision that he and the Executive were in collusion to protect departments from unpopular disclosures. If the arm of the Executive could reach into the AAO in this instance then it was probable that this had been a regular occurrence. It was clear to *The Weekend Australian* that

the Auditor-General's own office was involved in what amounted to a conspiracy to deprive Parliament of important information relating to Australia's defence preparedness. The AG is ... supposedly the watchdog of the bureaucracy. It is supposed to be independent and honest. But the evidence given to the Parliamentary Privileges Committee opens up disturbing questions about the genuine independence of that Office [17 January 1981].

After an investigation by the Privileges Committee of Parliament of the treatment of Berthelsen the issue was allowed to settle naturally following the usual round of assurances that all was well with the state auditor. The controversy, however, had damaged the credibility of the AAO and publicly questioned its ability to stand against powerful departments of state. For Berthelsen, his future in the public service was effectively ruined, although this was not to be last time that the public would hear from David Berthelsen⁵⁶.

It had been the aim of successive Auditors-General to set the example in efficient and economical management for other government agencies. By early 1981, as section 6.3.2 has demonstrated, the Auditor-General's reputation was becoming progressively

56. See Appendix 6.1(a) for a discussion of Berthelsen's involvement in the efficiency audit of the Post Office Counter Services.

tarnished as the EAD laboured to complete efficiency audits. At the time Auditor-General Steele Craik retired in February 1981 only two efficiency audit reports had been laid before Parliament.⁵⁷ A combination of virulent auditee resistance to efficiency auditing and the problems caused by an inadequate superstructure of objectives and performance measures in departments, increasingly put the AAO on the defensive, engendering a fortress mentality within the Office. Efficiency auditing had brought the Office under severe and sustained attack against which it now set about to develop strategies of self protection. These attempts to rescue the AAO are catalogued in section 6.4.

6.4 RETREAT OF THE AUDITOR-GENERAL FROM EFFICIENCY AUDITING: THE ELIMINATION OF THE EAD

6.4.1 Withdrawal from Consultation with Auditees and the Central Departments of State

Before taking office the new Auditor-General, Keith Brigden⁵⁸, had apparently appraised himself of the situation with regards to the work of the EAD and from early in his time as Auditor-General appeared determined not to tolerate what he saw as an auditing aberration and to dispense with the Division with as little involvement of Jones as possible⁵⁹. His attitude towards the EAD contrasted markedly with that of Steele Craik who only months before had praised it for contributing "significantly to the work of the Office" [AAO, 1980, *Report of the Auditor-General Upon the Financial Statements Prepared by the Minister for Finance for the Year ended 30 June 1980 and upon other accounts*, p.185]. Within the first month of his arrival Brigden had ordered Jones out of the main audit office in Canberra House and moved him in with the rest of the EAD. According to Berthelsen, Brigden

57. Department of Administrative Services Australian Property Function, 17 April 1980; Commonwealth Administration of Nursing Home Programs, 13 February 1981.

58. Brigden's appointment took effect from 17 February. Since 1976 he had been Second Commissioner of Tax.

59. He could not, of course, do away with efficiency auditing no matter what the problems currently experienced.

barely concealed (his) ... contempt for the work of the ... EAD. From the very beginning of his term in office ... (he) made it clear that he was against comprehensive efficiency reviews. He therefore took every opportunity to snipe at the manager of the Division, his staff, and the product of their efforts [AAO Minute, Berthelsen to Auditor-General, 8 March 1985].

As the form of Brigden's intentions became clearer and the pace of their implementation quickened Jones assured Brigden of his support for the integration of efficiency auditing but appealed to him to include EAD management in any moves affecting the EAD [AAO Minute, Jones to Auditor-General, 24 November 1981].

Brigden came to the Auditor-General's office with very fixed views on efficiency auditing. One highly placed member of the EAD asserted that Brigden's strength of purpose and tough attitude towards the EAD were a sign that he had been brought in as Auditor-General in the last days of his career to "discipline the EAD; the EAD had gone mad and Brigden would stop the rot" [Respondent 2, August 1990]. This belief was also corroborated by another EAD officer and Michael Talberg, former Secretary to the JCPA [Respondent 7, 27 September 1990; Interview with Talberg, 30 May 1991].

Jones and Brigden had very different conceptions of the appropriate management style for efficiency auditing and the stance the AAO should take in its relationship with auditees and the central co-ordinating departments. Their differences sprang from a very divergent conception of how the auditor's independence could be worked-out in practice and reflected the contrast in attitudes between the financial auditors in the central office and the efficiency auditors. Brigden was very authoritarian in style, reflecting his belief that authority had to be drawn back to the centre of the Office to retrieve the control over efficiency auditing which he saw was lacking and which he publicly blamed for the EAD's difficulties in implementing the efficiency auditing amendments [Brigden's handwritten annotations to a Minute from Jones, 24 November 1981].

The strength of the Auditor-General's independence in practice was conditional upon the relationships he had with the auditees and with the central coordinating departments of PM&C, DOF and the PSB. Brigden believed that the Auditor-General should always adopt an arms-length relationship, not getting involved in the management of departments. Jones' conception of what he and Steele Craik had set out to accomplish was very much the antithesis of this traditional and widely recognised outmoded approach to state audit⁶⁰. Jones believed that efficiency auditors needed to break from the isolationist, accounting mould of traditional audit. The ultimate mission of the efficiency auditor was to assist in bringing about improvement in the efficiency of the public service. To achieve this both Jones and Steele Craik saw that it was essential to develop a close and supportive association with auditees, albeit with some limits [AAO, *Efficiency Auditing Second Division Seminar*, 1980, section 2.2; AAO, *Administrative Circular 90*, 15 June 1977, p.5; AAO, *Guide*, 1978f, Foreword]. The success of efficiency auditing would depend on how well the efficiency auditors were able then to reflect these changes back on the Office and influence the accounting based auditors. To give insufficient attention to the aim of management improvement would be to emasculate the audit amendments.

In the context of efficiency auditing, neither Jones nor Steele Craik saw this new approach to auditee-auditor relationships as "in any way" a threat to the auditor's independence [Steele Craik 1979, p.5]. On the contrary, Jones was keenly aware of the importance of sustaining the image of the state auditor as an independent officer. Throughout his communications with the EAD he was at pains to stress that the auditors should always be conscious of their obligation to promote the independence of their Office [Jones, March 1979b, p.8]. It was not his belief in the need to engender

60. See for example the situation in Sweden as reported in INTOSAI 1971, p.3-9. Also Chandler, *Accountancy Age*, 16 August 1984, p.19

auditee confidence in the independence of the AAO where he differed significantly with Brigden but in the way this independence was pursued with efficiency auditing.

Brigden was opposed to any formalised liaisons with outside groups, including the central co-ordinating departments' consultative procedures forced upon Steele Craik by the Executive. Whereas Steele Craik had little choice but to accept the liaison conditions if he was to be given responsibility for efficiency auditing, Brigden did not feel compelled to continue the arrangement [AAO, *Executive Staff Conference*, 29 October 1982; Interview with Steele Craik, 11 March 1994]. Accordingly, the meetings were phased-out throughout 1981 and 1982. The PSB, which attempted to resuscitate the meetings by putting pressure on the Auditor-General through the Expenditure Committee, believed that Brigden's concerns stemmed from an unsubstantiated and misguided fear that the consultations 'pre-empted' his independence. [Expenditure Committee, 1985, *Review of Efficiency Review Mechanisms*, Minutes of Evidence, Stirr, 3 July, p.21]. Brigden denied that concern for his independence had motivated his decision. Instead, he attempted to convince the Expenditure Committee that he had found the arrangements he inherited were excessive for the purpose which they were ostensibly intended to achieve ie. co-ordination of performance review efforts [Expenditure Committee, 1985, *Review of Efficiency Review Mechanisms*, Minutes of Evidence, 3 July, p.155]. He insisted that a phone call would give the same result. His evidence, however, contradicted his previous statements to the IDC appointed to review the efficiency auditing function in 1982.

In his submission to the IDC Brigden made it very clear that he believed that consultations with the central departments jeopardised his standing as an independent officer. He argued that, irrespective of whether the arrangements had actually been used to apply pressure in the Auditor-General's selection of audit targets they had this

potential [AAO Submission to the IDC *Review of Efficiency Auditing*, 1982, p.6]. He contended that there was

no need for the Public Service Board to be involved in the conduct of efficiency audits ... It is an unusual arrangement despite the best intentions of its creation ... It can be seen as in conflict with the traditional statutory independence of the Auditor-General ... There are sound reasons of principle to support the view that the Auditor-General should not only be independent of the Executive Government but be seen to be independent [AAO Submission to the IDC, *Review of Efficiency Auditing*, 1982, pp.6-17].

In addition to differences over the appropriateness of maintaining a close relationship with the auditee during the course of the audit, Brigden did not share Jones' understanding as to the intent of the efficiency audit legislation: "the Audit Office ... in a word, is about accountability ... It is the medium by which government instrumentalities are made accountable to Parliament" [Expenditure Committee, 1985, *Review of Public Sector Efficiency Review Mechanisms*, Minutes of Evidence, Brigden, 3 July]. For Brigden there was no essential difference in the intent of the financial audit and efficiency audit provisions of the *Audit Act*. Therefore, apart from express differences in the legislation, such as the need to provide a draft report to the auditee prior to finalising the report, audit processes would be similar; including the level of interaction between the Office and the auditees.

Accepted practice was for Auditors-General to have only limited, highly structured consultation with auditees during the course of an audit and to minimise the amount of information which was relayed back to the auditee before the audit was complete. In this scheme of audit it was seen as highly inappropriate and a threat to the state auditor's independence to draw close to the auditee; the state auditor's mandate could only be fulfilled if the state auditor remained outside the workings of the auditee. In the context of the form of governance inherited by Australia from 19th century Britain, to act otherwise would have been contradictory to the norms of constitutional practice.

Auditors-General did not want to give the impression that audit conclusions and findings were the result of interrative negotiations with auditees which were designed to arrive at *agreed* findings. Rather, by restricting auditee involvement in audits to providing documentation and information required by the auditors it would be obvious that the Auditor-General had not been influenced in his deliberations and that the resulting report presented an objective and independent assessment of the auditees statutory and financial obligations. As chapter 2 has shown, state audit could only be of service to the Executive as a signalling device if these conditions were met. The AAO's officers at all times were to remember that the auditee was not their client; they worked on behalf of, although not as part of, Parliament. Efficiency auditing to Brigden did not introduce any changes in this conservative, long accepted relationship between auditee and auditor.

In a strict reading of the *Audit Act* the auditee had no right to influence the form, direction or content of the audit for regularity and legality. Further, they had no right to the report of the audit. As Chapter 2 has shown, the public sector auditee was the object of the audit, its operations were the subject of the audit and Parliament the principal of the audit. Still, a successful audit depended upon a measure of co-operation from auditees. The state auditor recognised that his extensive powers alone would not guarantee that he would fulfil his duties successfully. When state audit was exclusively concerned with the very procedural issues of whether regulations and laws had been followed and measures had been instigated to safeguard assets the grounds on which this cooperation would be sought were clear. Everyone knew the rules of the audit engagement; the auditee and the auditor had long been audit partners and knew what was required for the audit performance to be successful. The auditors' findings may at times be contended by the auditees but rarely the methods used to reach these findings. With efficiency auditing both the *audit methods* and *audit findings* were candidates for disputation between auditor and auditee.

Brigden wanted the AAO to maintain only the necessary contact with the auditees which would ensure the satisfactory completion of audits. Too much information given to auditees would only provide them with the material to make life more difficult for the auditor. Besides, the auditees were not controlling the audit; they were the unwilling target of the audit and would probably take opportunities to put themselves in a favourable light, if necessary at the auditor's expense. Retreat by the AAO to a more remote auditee stance would reassert the essentially judgemental and non-consultative role of the AAO⁶¹. The AAO was not in the business of management consulting. On the grounds that a close association with auditees compromised the Office's independence, Brigden forced his office to withdraw into the relative safety of its traditions which would provide a safe space between auditee and auditor. Reverting to the traditional audit relationship would allow the Office to reclaim the high ground and reassert its standing in the eyes of the public.

Differences between Jones and Brigden over the position of the auditee came to a head towards late 1982 [AAO minute, Hill to Jones, 25 August 1983]. Deputy Auditor-General (DAG) Hill had become alarmed at the detail provided in written communications during the progress of efficiency audits between departments and EAD auditors. With specific reference to the efficiency audit of the Administration of the Widows Pension and Supporting Parents Benefits, Hill concluded that the auditors were divulging too much too soon to the auditees. Hill accused Jones of providing the auditee with "nothing less" than a draft field report to the auditee [AAO minute, Hill to Jones, 25 August 1983]. This, he pointed out, represented a dramatic departure from the usual Office practices which were limited to an exit interview with the auditee, apart from other minor consultations during the audit⁶². Certainly it was not Office

61. This was in direct contrast to the UK experience where they had moved "from a time when we seldom spoke in this way to a time when we seem to do little else" [Downey (C&AG) 1985, p.7].

62. Under the influence of Auditor-General Monaghan Hill's position by 1986 had mellowed and turned towards that of his former adversary. Now, it was

not our wish to adopt an adversarial stance. Nor is it our wish to be perversely critical in our reports to the Parliament. Indeed, the primary goal ... is to improve the economy and efficiency of public administration [1986, p.64].

practice in the conduct of the traditional financial audits to provide the auditee with a written indication of the likely contents of the audit report. Jones was reminded that the fiduciary nature of the long standing financial state audit meant that the auditor was not there to be an adviser to the auditee but to report on the auditee's performance in following the wishes of Parliament. It was not the task of the state auditor to assist in the identification or implementation of schemes for improvement. Accordingly, Hill expressed his concern at the "cosiness of the arrangements" which followed from Jones' relationship with auditees. Reflecting a well ingrained appreciation of the fragile reputation of the Auditor-General's independence, Hill warned Jones that there were "risks inherent in such a relationship" and ordered Jones to "cease the practice immediately" [AAO minute, Hill to Jones, 25 August 1982].

Hill's injunction went to the very heart of Jones', and Steele Craik's, approach to efficiency auditing: open consultation with auditees in an atmosphere of trust, constructive criticism, balanced reporting and the opportunity for the auditee to contribute to the auditor's deliberations. It also effectively meant that control of the methodology of efficiency auditing would pass to the Central Office. Jones, therefore, wasted little time in replying to Hill. In an equally forthright minute to Brigden, Jones referred to Hill's "... references to 'cosiness' of the arrangements as an insult to my integrity and intelligence and to that of my senior officers" [AAO minute, 27 August 1982]. Jones was at a loss as to why the DAG and the Auditor-General should now object to procedures which were clearly laid out in Jones' draft *Efficiency Audit Manual* and which the EAD had been using for the past eight months. He defended the EAD's approach to consultation with auditees arguing that it was "useful to us and auditees ... and, indeed, essential to an orderly *constructive* audit". From both the tone and the content of Jones' reply to the Auditor-General it appears that he had had enough of the Auditor-General who had been progressively whittling away at his Division, reducing his authority and rolling back much of the audit methods which the EAD with great difficulty had brought to an advanced stage of maturity. Jones

therefore informed the Auditor-General that his final difficulty with Hill's directive was that

it would run counter to accepted management practice for me to be responsible for discharge of the EA function to more than one person. In absence of any formal directive from you advising me that I am no longer responsible to you, I cannot see my way to complying with the Deputy's direction ... [AAO Minute, 27 August 1982].

In his refusal to obey the DAG's instructions Jones had probably sealed what was an already determined fate. By refusing to follow the orders of a superior officer in the public service, whom he would have been aware was acting at the behest of the Auditor-General, he was questioning the authority of the Auditor-General himself. Jones, as the third highest ranking officer in the AAO, would have only been too cognisant of the supreme position of authority in which the *Audit Act* placed the Auditor-General, both from a constitutional point of view and as the Permanent Head of his own Office. Every member of the Office while ever they were part of the Office would always be answerable to the Auditor-General.

Jones' reply was the nadir of his relationship with Auditor-General Brigden. He had shown that he was not prepared to obey the directions of the Auditor-General's immediate deputy and that he regarded his own views and methods as above those of the Audit Office. To Brigden Jones' reply indicated that the Auditor-General apparently did not have full control over his Office. The Auditor-General alone was responsible for the actions of his Office; it was he as the symbol of the integrity of state audit who had the high public profile and would be held answerable for the actions of his officers. It was not possible to separate the legal person of the Auditor-General and the office holder. Brigden could not hide behind the anonymity of his Office as did other departmental heads who relied on their public servant status to allow them to seek refuge behind their Minister. There was no one to deflect criticism from the

Auditor-General: no one Minister to be his champion. Therefore, it was essential that he could depend upon a disciplined office.

Brigden returned Jones' minute of the 27 August with a number of hand written annotations, each of which reinforced his strong support for the DAG. He again pointed out to Jones that the Office did not provide draft audit reports to the auditees and reminded Jones that the Office "did not report to auditees". He reiterated Hill's concerns that close consultation with auditees encouraged the perception that the purpose of the practice was to bring about an agreement between auditor and auditee on the conclusions of the audit. This, according to Brigden, certainly did lead to considerable "cosiness". Brigden then took the opportunity to further isolate Jones by disparaging Jones' *Efficiency Audit Manual*. Brigden scoffed at Jones' reference to the manual to support his actions, noting that "nobody has managed to *plough through* the draft manual" [emphasis added], thereby giving a clear indication that the Auditor-General had no intention of making the Manual an official AAO document. Brigden had not read it and apparently neither had any of his senior financial audit staff.

The fate of the *Efficiency Audit Manual* was another example of Brigden's determination to distance his Office from anything to do with the EAD and in the process promote the message that order and control had returned to the AAO. It also refuted his claims that the problems of efficiency auditing were primarily management derived. Confrontation over the *Efficiency Auditing Manual* had erupted within Brigden's first six months at the AAO. According to Jones, Brigden had not attempted to give the *Efficiency Auditing Manual* a fair hearing, dismissing it out of hand⁶³ in language that Jones was reluctant to relay to the JCPA because of the "presence of ladies" [JCPA, *Australia Post Inquiry*, 1985, Minutes of Evidence, Jones, 16 September, pp.412, 428; AAO Minute, Jones to Brigden, 25 March 1982]. In defence

63. Steele Craik apparently had no similar misgivings about the Manual [*Report of the Auditor-General Upon the Financial Statements Prepared by the Minister for Finance for the Year ended 30 June 1980 and upon other accounts*, p.186].

of the *Efficiency Auditing Manual* Jones indicated that not only was his staff proud of it but it was unique in state audit [AAO Minute, Jones to Brigden, 25 March 1982]. In view of the imminent review of efficiency auditing by the Executive Jones stressed that the absence of an adequate *Efficiency Auditing Manual* "would be grounds for serious criticism of the Office", given that the development of efficiency auditing methods was the *raison d'être* in establishing a separate efficiency audit division. These arguments were wasted on Brigden who was determined to rid the AAO of all traces of the EAD in the short time he had available before his retirement. The absence of an *Efficiency Auditing Manual*, contrary to Jones' arguments, provided Brigden with additional evidence for external consumption of the mean accomplishments of the EAD and further grounds for dispensing with the EAD.

Jones was left in no doubt that the DAG's ruling was to be followed without question and that Jones on this occasion had well and truly gone too far: "you can't have expressed yourself properly in writing this- *I don't believe it*" (emphasis added) [Auditor-General's annotation on the Minute of 27 August 1982]. Brigden was still unhappy with the auditee posture of the EAD when he again wrote to Jones on the 5 October 1982. He criticised the audit material sent to the Department of Aviation and the Department of Employment and Industrial Relations by the EAD as "nothing more or less than field audit reports of a kind that should not be seen out of this office". Jones was told to follow usual audit practices and to abide by DAG Hill's decision on the matter. Jones was not to be dismissed so easily. On the 6 October he sent a minute to the Auditor-General in which he argued that, despite the DAG's comments to the contrary, his written communications with auditees bore little resemblance to draft audit reports but were more in the nature of EA5's⁶⁴. He argued that, despite the Auditor-General's belief, he and his division were following general Office procedures in their relations with auditees and the purpose of his discussions with auditees was not to achieve common ground.

64. A document used by the Office in the normal course of audit

In a Minute on 24 March 1983 Brigden again reflected on what was the core of his differences with Jones, namely the level of consultation with auditees during audit. Jones was directed that

in our written communications with auditees we should use management letters of the ordinary kind and not provide them with field or draft reports. In essence management letters should be issued on *conclusion* of an audit and should expose audit findings where necessary and invite comments without providing any opportunity for auditees to appear to be influencing the content of the audit report [AAO minute, Auditor-General to Jones, 24 March 1983].

The confrontation with the Auditor-General over the extent of involvement which the efficiency auditor should have with auditees convinced Jones that his association with efficiency auditing was nearing its end. In a reflective mood Jones wrote that

if the strain allowed to continue, damage to Office internally and ultimately externally- there are no winners, only losers [Handwritten note, October 1983].

Brigden's confrontations with Jones over auditee consultations also served to accelerate Brigden's determination that the financial audit divisions would absorb the efficiency audit function and that the EAD would be no more. In the meantime, Brigden set about to remove as many distinctions as he could between efficiency auditing and other forms of audit. This would then enable him, as section 6.4.2 below demonstrates, to claim that other forms of performance audits would achieve the same results as those described as efficiency audits, yet without the clogging legalism of efficiency audits.

6.4.2 *Blurring the Differences Between Efficiency Auditing and Project Audits (Creating a new Lexicon for Efficiency Auditing)*

In response to Executive threats and pressures on the Office, Brigden and his senior staff embarked on a discourse which set out intentionally to obfuscate the differences between efficiency auditing and other forms of audit. Central to this discourse were the definitions related to efficiency auditing used in the Office and in its external reports. By specifying meaning the Office attempted to capture the performance auditing discourse; it had the effect of prescribing that which would be regarded as legitimate comment and proscribing that which would not be admissible within the context of authorised ie. AAO, definitions. The interpretation by the JCPA and the Expenditure Committee of the meaning of efficiency auditing and project auditing reflected those in the *Audit Act* but was very much informed by the meanings and definitions used by the AAO. The work of the AAO, therefore, was evaluated with reference to relevant legislation *and* the discourse of performance audit created by the Auditor-General and his Office.

To the Interdepartmental Committee appointed in September 1982 to review the efficiency audit work of the Auditor-General, Brigden justified terminating the EAD on the grounds that the adoption of 'systems based' auditing throughout his office had removed much of the methodological differences between audit types, the main reason for originally establishing a separate efficiency audit division. As a result there was "no real distinction... in the aims of 'value-for-money' ... (project audits) and efficiency audits" [IDC, Minutes of Evidence, 1983, p.1025]. Accordingly, Brigden recommended to the IDC that the *Audit Act* be amended to remove the artificial distinctions created between efficiency audits and other types of audits [AAO Submission to the IDC, 1982, p.16]. He argued that the efficiency auditing amendments had not been needed to allow the Auditor-General to conduct performance or value-for-money audits; this form of audit was already adequately covered in the Act under sections 51 and 54. It had all been a big mistake. As a

consequence, there was no need now for a separate division for efficiency auditing⁶⁵. The IDC did not agree, pointing out that the continuing problems experienced with efficiency auditing indicated that it was still in its developmental phase and needed more time to mature [IDC Report, 1983, p.21].

In his comments to the IDC Brigden attempted to blur as much as possible the distinction between project audits, which were conducted by the financial audit divisions, under section 54, and efficiency audits. By referring to project audits as 'value-for-money' audits the impression was given that there was no real difference in practice, intent or, what was perhaps more important, in law between these and efficiency audits; differences were limited to audit time horizons, the scope of the audits and access powers. The DAG argued that efficiency audits were a subset of project audits: project audits "are exactly the same thing (as efficiency audits) ... except more timely, less costly [Hill 1985, p.10; see also AAO, *Reorganisation Proposal for the Auditor-General's Office (Boland Report)*, 1983a, p.119]. Hill emphasised that efficiency audits were only a special case of project audits, the most valuable form of audit, and were to be resorted to only in extreme cases [Executive Staff Conference, 29 October 1982, p.2; *Boland Report*, 1983, p.16]. Efficiency audits were referred to as large scale project audits with smaller scale project audits described as *cost-effectiveness* or *operational audits*. Major project audits were distinguished by the size of audit effort, the greater complexity of the audit and the significance of the subject. The effect of this semantic jigsaw was to introduce widespread confusion amongst auditees and to deepen the uncertainty in the AAO.

It is not difficult to understand Brigden's preference for project audits in light of the continued attacks on efficiency auditing and the relative calm in the financial audit divisions. Project audits conducted under s.54 of the *Audit Act 1901* by the financial

65. Brigden argued that efficiency auditing legislation was a Trojan horse: Steele Craik's real and sole motive in seeking efficiency auditing legislation had been to enable him to gain access to the Taxation Office [JCPA, 1985, *Australia Post Inquiry*, Minutes of Evidence, 7 August, p.299].

audit divisions did not have the same potential to attract attention and to raise the political ire of the Executive and the curiosity of Parliament. Unlike efficiency audits there was no requirement that these audits had to be reported to Parliament; their occurrence had to be reported, not the findings which were confidential to the auditee. Section 54 audits therefore more resembled management audits in the way the results were used.⁶⁶ By expressing a firm commitment to conducting project audits, the AAO maintained the appearance that the intentions of Parliament regarding the conduct of efficiency audits were being honoured.

Two audit equations therefore arose out of the difficulties of the EAD: efficiency audits equal more political exposure for the Auditor-General; project audits equal less political danger. With efficiency audits the Auditor-General had to give reasons for findings, make recommendations, quantify costs and benefits and report the detail of each audit to Parliament. None of these conditions was a feature of project audits. Given that the *Audit Act* allowed the Auditor-General the discretion of when to nominate an audit as an efficiency audit (s.48 c.(1)), the line of least resistance, especially in a climate of external threat i.e. adverse reactions to efficiency audit procedures and findings (in the Parliament, by auditees, Parliamentary Committees and in the community at large) would be to prefer project audits. An examination of the resources devoted to the two branches of performance auditing by the AAO supports this conclusion. In 1984-5 a bare 5% of audit resources were devoted to efficiency auditing while 28% was given to project audits [Alfredson 1987, p.26]. Compared to the 50% of resources predicted by Steele Craik, efficiency auditing had not fared well under Brigden. Hill has observed that Brigden designated an audit as an efficiency audit "only when forced to do so" [1985, p.10]. It had become preferable to engage in audits which had less potential to cause anguish to either the Auditor-General or the auditee.

66. Absence of an invitation by agency management for the Auditor-General to conduct s.54 audits meant they still differed substantially from management audits of the private sector.

In his 1983-4 report Brigden justified the reduction in efficiency auditing by referring to the limited resources which the Executive placed at his disposal. He noted that he did not have sufficient resources to carry out all his mandatory audits and at the same time support an extensive efficiency auditing program. This did not mean, he attempted to reassure the Expenditure Committee, that his Office lacked commitment to "the efficiency audit provisions of Division 2" and "to ongoing programs of efficiency audits" [Expenditure Committee, 1984, *Review of Public Sector Efficiency Review Mechanisms*, AAO Submission, p.7].

In an Administrative Circular in July 1983 Brigden betrayed a peculiar lack of understanding of the provisions of the *Audit Act* covering efficiency auditing in an attempt to clarify the Office's position on the meaning of efficiency auditing. Instead, he increased the misunderstandings and confusion already generated by his attempts to manipulate the meanings of efficiency auditing by contradicting not only the legislation governing efficiency auditing but also meanings which had been widely understood in the Office [see Brigden to Sir William Cole, Chairman of the PSB, 8 July 1983]. He noted that whereas:

in the past various terms (eg. cost effectiveness, value for money, broad scope, performance, operational, project auditing, etc, etc,) have been used (f)rom now on there should be adherence to the terminology used in the Audit Act, *i.e. efficiency auditing* (emphasis added). That is the activity that the Office is legally carrying out and as a term it is sufficiently broad to catch all the other quasi-synonymous references [Administrative Circular, 1983/189, footnote p.2].

In his directive, Brigden was attempting to use the legislated credentials of efficiency auditing to give section 54 audits the legal clout of efficiency audits but without the obligations of efficiency auditing. Thus, in his attempt to retrieve the loss of credibility which he believed the Office suffered from the activities of the EAD, Brigden created a confused morass of performance auditing terminology and practice. Auditees were

perplexed as to which type of performance audit they would be under and therefore the rights and powers of the Auditor-General for that particular audit. The legacy which Auditor-General Monaghan inherited from Brigden's lexicographical excursions was one where 'confusion abounded' "regarding the nature and purpose of efficiency auditing and the ways in which they should be conducted" [Open Letter to the AAO from the Auditor-General, 25 October 1985; Press Release, 8 July 1985].

Brigden's attempts to redefine efficiency auditing were an integral part of the strategy to divorce the Office from the EAD's problems and to attempt a fresh start. To accomplish this the EAD would have to be closed. Consequently, throughout 1983 Brigden accelerated the assumption of efficiency auditing by the financial audit divisions and the estrangement of the EAD's difficult manager, John Jones.

6.4.3 The Move to Comprehensive Auditing and the Closure of the EAD

By early 1983 Jones and Brigden were communicating only by Office Minutes. Brigden was bypassing Jones on most decisions related to the EAD and consulted him very little about the destiny of his division and its personnel. On more than one occasion Jones complained to the Auditor-General that he was only getting to hear things second hand and sometimes even then obliquely through his subordinates. It is obvious from Office Minutes of 24 November 1981, 8 March and 19 May 1983 that by this stage Jones had very little control over either the retention of personnel in his Division or the ability to carry out any further efficiency audits. Staff were gradually transferred out of the EAD without either Jones' prior knowledge or approval and were not being replaced [Respondents 3 and 6, 20 July 1990]. Jones asked the Auditor-General that if it was his intention to take all efficiency audits away from the EAD then he should bring the process to a definite conclusion by transferring all staff immediately and not prolong their uncertainty by closing the EAD by stealth [AAO Minute, Jones to the Auditor-General, 8 March 1983]. He also attacked the "continuing overt and covert denigration" of the work of the EAD which he said was

aimed at destroying efficiency auditing "in the form to which it has evolved" [AAO Minute, Jones to Auditor-General Brigden, 19 May 1983].

In his reply to Jones' Minute of 8 March Brigden was still not prepared to say outright that the EAD would be definitely absorbed by the four other line divisions, referring instead to a "*possible* winding-down" of its activities [AAO Minute, Auditor-General to Jones, 24 March 1983]. If Brigden suddenly terminated the operations of the EAD it would attract unwelcome, critical attention from outside the Office. With a gradual approach, if he was challenged Brigden could claim, as he later did, that he was not reducing his commitment to efficiency auditing only changing the way it was organised. Brigden also again directed Jones not to initiate any new efficiency audits. In addition, Brigden reinforced a previous decision that the scope and depth of existing efficiency audits were to be narrowed; that efficiency audits were to take, at the longest, six months and the level of detail in future audit reports would be reduced.

It had never been the intention of Steele Craik or the Parliament sponsoring the legislation that efficiency auditing would continue to occupy a distinct function within the Auditor-General's office. Rather, the aim had always been for the EAD to carry out early development work⁶⁷ and to encourage the diffusion of efficiency auditing techniques throughout the AAO [18th Conference of Chief Auditors, 1978, p.1; Steele Craik's submission to the Public Service Board in 1978; JCPA, *Report of the Australia Post Inquiry*, p.124; AAO, *Guide*, 1978, p.8]. The EAD's aim was to make itself redundant with all audit divisions conducting efficiency audits [Great Britain, 1980, PAC, Minutes of Evidence, Steele Craik, 11 June 1980, p.7]: "it is a matter of policy that the EAD will form only a nucleus of EA (efficiency audit) teams and will in fact play more of a co-ordinating role in the conduct of EA's" [AAO, *Guide*, 1978f, p.8].

67. Approval from the Public Service Board for a new audit division in July 1977 reflected what seems to have been an accepted belief that five years could be regarded as the development period (JCPA, 1986, *Report of the Australia Post Inquiry*, Report, p.11). Subsequent Auditors-General and audit officers referred frequently to this five year period [Lidbetter 1985, p 3; Monaghan 1985, p 20].

Problems of co-ordinating the EAD's work with the financial audit divisions over the first two years of the EAD's activities served to convince Jones of the wisdom of this goal [AAO, *Mid Term Review*, 1981b, pp.40-1]. This was before Brigden's plans began to bite and prior to Parliamentary review of the efficiency audit reports.

Given Brigden's intentions, what might have been a reasonable and expected program of assimilation for efficiency auditing became instead, from almost their first contacts until the end of Jones' association with the EAD, a battle-ground between two men who had very different views on the role of efficiency auditing [Minutes of Evidence, *Australia Post Inquiry*, 1985, p.443]. Both Jones and Brigden wanted their own way [Respondent 6, 27 September 1990] with neither being prepared to accede to the intentions of the other. For Jones, Brigden's

views were inconsistent with the spirit of the efficiency audit provisions of the Audit Act as envisaged by the Royal Commission on Australian Government Administration ... by the ... Government itself ... and, finally, by the Parliament [JCPA, 1985, Minutes of Evidence, *Australia Post Inquiry*, p.441)⁶⁸.

To Jones it was not a matter of a conflict of opinions about the detail of audit practice. Instead, he saw at stake the very survival of efficiency auditing in the form "intended" by its creators. Expressing the concerns also of Parliament and the Expenditure Committee, Jones saw his mission as preserving the original vision for efficiency auditing as he believed it to have been. While Jones accepted from the very beginning that the EAD would only be a temporary measure he was not prepared to see it swallowed-up by the main Office on just any terms. Certainly, he did not envisage that the integration should occur as a means of gaining control of efficiency auditing for the purpose of driving it to the point of extinction [AAO Minute, Jones to Hill, 30 November 1982]. Brigden therefore set about to dismantle the EAD *around* Jones.

68. Jones' comments created quite a stir with the JCPA who asked Jones whether he thought Brigden's actions amounted to illegal acts. Jones was not prepared publicly to condemn Brigden on these terms.

After the troubles experienced by the EAD, attempts to close it would immediately leave the Auditor-General open to accusations that he was retreating from a troublesome and contentious area of audit. In an attempt to avoid this, Brigden included the assimilation of the EAD as part of a general reorganisation of the Office in an endeavour to make it more palatable to outside interests. In October 1982 Brigden assigned Brian Boland to carry out an extensive review of the Office which was to be predicated on three main principles:

- there should be four operational divisions with division heads classified at Level 4 and branch heads at Level 2
- each operational division was to be responsible for the full range of audit functions ...
- the EAD would be fully integrated into the existing four line divisions [AAO minute, 4 November 1982].

His decision to reorganise the Office could be seen as a signal to the IDC that, if the Auditor-General was allowed to retain the efficiency auditing function then it would be conducted under very different arrangements than had previously pertained. Brigden made certain that the AAO projected a united front to the IDC by forbidding Jones and his officers to appear before the IDC or to make submissions [AAO Minute, Jones to Hill, 30 November 1982, p.4]. The Executive had to be assured that the Auditor-General was again in control and that everyone in the AAO would again know their place within the constitutional firmament. The Boland "review", therefore, was very much an exercise in providing justifications for the processes which Brigden had already determined. It was necessary to convince the Expenditure Committee and the IDC in particular that the motives for the reorganisation of the Office were derived from the need to improve the efficiency and effectiveness of the audit function and that they did not reflect the actions of an office under siege.

The Boland report had three, unsurprising, main sets of recommendations: that the integration of efficiency auditing, as envisaged when it was originally proposed, be put into place; that the operating divisions of the Office be reorganised into three levels,

instead of two, each headed by a Level 2 officer designated as Assistant Auditor Generals; that a number of senior positions be reclassified in recognition of the sweeping changes which had occurred in government and in state audit over the past decade and in the increased responsibilities which the integration of efficiency auditing would bring about⁶⁹. The new approach to audit in the AAO required a corresponding "fresh approach" to the management of audits which the reorganisation would allow [Boland Report, 1983a, p.12; also AAO Minute, 4 November 1983, part 6]. The report further argued that integration of efficiency auditing into the other three line divisions would give rise to economies of information and techniques from the sharing of skills and knowledge between financial and efficiency auditors. Besides, with systems-based auditing efficiency auditing was only an extension of financial auditing and its natural place was within the bosom of the financial auditors.

The Boland report projected the diffusion of efficiency auditing throughout the Office as the means by which the experience gained to-date could be put to good use over the complete range of audits now conducted by the Office. It would be the means with which the Auditor-General could consolidate a *comprehensive auditing* approach where the insights and knowledge gained in financial audits could be the basis of further investigations either of a limited nature using project audits or of a much more extensive variety under efficiency auditing. For Jones this spelt the end of efficiency auditing in the form it had come to develop and which he saw as the aim of those who promoted the amendments to the *Audit Act*. Jones pointed out that the intended skills

69. Other organisational changes which were requested on the basis of the Boland Review were:

- i) an increase in the operations sections in each branch and an increase in the number of Third Division staff
- ii) the establishment of a separate ADP division
- iii) a new planning, development and management co-ordination division with two Level 1 branches and headed by a Level 3.
- iv) the Deputy Auditor-General would be reclassified to Level 6
- v) larger establishments in Branch Offices and headed by Principal Auditors at Class 10
- vi) auditors at Grade 3 would be reclassified to Class 7 or 8.

The overall effect of these changes would have been to increase the total establishment of the Office by another 80 positions.

transfer which was being used as the substantial reason for the integration of efficiency auditing would be severely retarded because

- non accountants were treated as second class citizens, with promotion prospects within the Office compromised;
- EA staff would be operating in relative isolation in an environment at best apathetic to, and at worst ignorant of, the analytical approaches required ...
- EA staff's greater mobility and dissatisfaction with these arrangements will cause them to seek jobs elsewhere [Jones 1983, *Notes on the Proposed Reorganisation of the Audit Office*].

The Auditor-General was at pains to assure the PSB, upon whose ultimate approval any major re-organisation depended, and the Parliament that the assimilation of efficiency auditing was only in the interests of the operational efficiency, certainly not as a self protective measure [Brigden to Sir William Cole, 8 July 1983]. To strengthen further the conviction of his arguments he linked the need for extra staff and the changes to the organisation of efficiency auditing to meeting the needs of Parliamentary committees which

nowadays are looking more and more to the Office for complete, up-to-date information on departmental and statutory authority management activities. It is imperative that the Office be able to respond to what is being asked of it ... (At the present time) it clearly does not possess sufficient capacity to fulfil its traditional role while also satisfying the increasing information requirements of Government and the Parliament, especially in the "*project*" or *efficiency audit area* (emphasis added) [Brigden to Sir William Cole, 8 July 1983].

The PSB remained unmoved by the Auditor-General's arguments and refused to grant him the extra staff he sought or to upgrade the positional classifications of his senior staff.

The Expenditure Committee was uneasy about doing away with the EAD, the Chairman describing it as a "stupid thing" [Expenditure Committee, 1985, *Review of Public Service Efficiency Review Mechanisms*, Minutes of Evidence, 2 July, p.298]. After Brigden's performance at the review of the Main Battle Tank efficiency audit in

1984, where he indicated that he had closed the EAD because of its problems, the Committee was suspicious of Brigden's motives: the Chairman conjectured whether it was it because a better way had been found by using comprehensive audits carried out by the financial audit divisions, as he was now claiming, or had he found efficiency audits too difficult and intended to give them a lower priority [Chairman, Minutes of Evidence, *Review of Public Service Efficiency Review Mechanisms*, 2 July 1985]. Representatives from the private sector expressed their dissatisfaction with the proposal, emphasising that the aims of efficiency auditing and 'normal' audit were

totally different and incompatible in a single audit program ... (Staff) responsible for normal audit work are incapable of carrying out efficiency audits because of their lack of appropriate training [Touche Ross, Submission to the Expenditure Committee, *Review of Public Sector Efficiency Review Mechanisms*, 1985].

In an Office dominated by accountants with an antagonistic attitude to those who believed in the importance of efficiency auditing, the Expenditure Committee could see that under Brigden efficiency auditing might sink to re-emerge as an extension of financial audit, thereby "diluting the purpose for which efficiency auditing was introduced" [Expenditure Committee, *Management of the Main Battle Tank*, 1984, p.11]. Indeed, Brigden made it clear to his Office that he saw the traditional financial and compliance audit and auditing of efficiency as symbiotic elements in a *comprehensive* program of auditing and not having separate identities: the one supported the other in the pursuit of improved accountability. In the future

examinations of efficiency and economy will be included in all types of audits performed by the Office and our programs will, as far as possible, be directed to promoting improved government administration from both the financial accountability and efficiency standpoints. In other words, audits conducted by this Office will be concerned as much with economy and efficiency issues as with financial regularity. This is what is meant by the term "comprehensive auditing" [AAO, *Administrative Circular*, 6 September 1983].

Comprehensive, Brigden emphasised, did not mean "wall to wall" audit but a cyclical audit where the Office would attempt to cover most aspects of the operations of an auditee over a period of years [Lidbetter 1986, p.11; Brigden to Sir William Cole, 8 July 1983].

In comparison to the Canadians from whom he borrowed the concept, as it had developed in the seventies under MacDonell⁷⁰ [see Chapter 4], Brigden's interpretation of comprehensive auditing was very selective. For the Canadians comprehensive auditing was not so much a technique of audit, as Brigden interpreted it, as a new approach in state audit. For comprehensive auditing to be successful the Canadians specified that it needed to be co-ordinated with the internal audit function of auditees to avoid the audit regressing to the traditional financial compliance audit. It also required openness and consultation with the auditees who were to be kept informed as the audit progressed. Reports had to be constructive in tone, where appropriate pointing out weaknesses, for the purpose of enhancing the organisation's ability to obtain better value for money from the resources it held [Canadian Comprehensive Auditing Foundation, 1983, pp.10-12]. Co-operation and positive change provided the essential framework for comprehensive auditing. The former was antithetical to Brigden's approach to state audit, as this chapter has shown, and the latter was for Brigden a pretentious facade to what was essentially an unpopular and judgemental operation.

Brigden's successor was left to justify the new approach and to reassure critics that the

comprehensive auditing approach can be seen not as embodying some kind of abrogation of the responsibility to undertake efficiency audits, as it may have come to be understood by some, but rather a further stage in the development of auditing systems ... (It) is the extension and maturation of the efficiency auditing approach, not the reversal of it

70. Credit for originating the comprehensive audit concept is usually given to Comptroller General Warren at the GAO in the late forties [see Pois 1979, pp.172-6; Normanton 1966, pp.113, 211].

[AAO Submission, Expenditure Committee, *Review of Public Service Efficiency Review Mechanisms*, 1985, p.19].

According to Jones, the blurring of efficiency and financial audits which resulted would not only be contrary to the original intent of the audit reforms but would deprive Parliament of a virile means of accountability [AAO minute, Jones to Boland, 28 February 1983, p.6]. By absorbing efficiency auditing in the form envisaged by Brigden where it would lose altogether its separate and, for Jones, different identity there would be a decline in the quality of efficiency audits as the efficiency audit expertise became thinly spread over the remaining line divisions [AAO Minute, Jones to Boland, 28 February, 1983, p.6]. The interaction between members of the EAD, which allowed learning to be shared, Jones had seen as one of the great strengths of a separate efficiency audit division. Indeed, Steele Craik had authorised the separate division to take advantage of this feature. What mattered to Brigden was that the amalgamation would remove a considerable potential for future embarrassments for the Auditor-General and reassert what Brigden saw as the Auditor-General's independence in all matters of audit.

Misgivings about the proposed reorganisation of the AAO were compounded by the Auditor-General's intention to re-emphasise the recruitment of accountants into the AAO with a "restraining (of) the recruitment of multidisciplinary analytical skills" [Jones, late 1983, comments on the proposed Boland scheme of reorganisation; see also AAO Minute, Boland to Auditor-General, 4 November 1983, part 3, p.2]. Reversion in the recruitment policy under Brigden meant that, apart from accounting and Electronic Data Processing (EDP), all other disciplines would be effectively excluded from being considered by the Office. This, argued Jones, denied the Office access to other relevant skills and was inappropriate when "about 50% of the Office's work does not require accounting skills" [Jones, *Notes on the Proposed Reorganisation on the Audit Office*, p.14]. Thus, for Jones to hand over control and

responsibility for efficiency auditing, as opposed to project auditing which had continued to be carried-out by the Office in parallel with efficiency auditing, to the accountants of the Office would be to give it into the hands of those who neither understood efficiency auditing nor were competent to carry it out.

Financial audit was less threatening to the Auditor-General because it was carried out according to well defined standards of practice. It was also concerned with clear, definable and ascertainable criteria of assessment which have an appearance of objectivity. Financial audits did not demand the same degree of judgement on the part of the Auditor-General as did the more highly subjective efficiency audits. There were, as a consequence, more opportunities with efficiency auditing for: the Auditor-General to be harried by auditees; the conclusions reached in efficiency audits to be ridiculed as the prognostications of uninformed dilettantes; the auditors to be accused of perfunctory research and undernourished analysis as well as straying into questions of policy or effectiveness (for examples see Reports of the Expenditure Committee on The Australian Property Function Audit Report, June 1981, p.3 and the Main Battle Tank Audit Report, May 1984, p.2).

The progressive stripping of personnel, authority and resources made Jones' position untenable and in February 1984, twelve months before Brigden's retirement, he sought and was given permission to take fifteen months leave without pay⁷¹ (JCPA, *Australia Post Inquiry*, Minutes of Evidence, Jones, p.397)⁷². In the wake of his departure auditing returned almost to its position prior to the 1979 amendments.

Brigden's reactions demonstrated the high political stakes now involved in efficiency auditing and the new arena of political debate into which the AAO had been brought.

71. For details of Jones' subsequent career see Appendix 6.2.

72. Not all members of the EAD had their careers in the public service permanently blighted. Mike Jacobs eventually rose to the position of DAG and Brian Kimball to Assistant Auditor-General. Most non-accountants moved to other departments.

In section 6.5 these aspects of efficiency auditing are developed to reinforce the argument that the form efficiency auditing began to take was heavily influenced by political pressures emanating from within the Executive and therefore showed the conditional nature of state audit independence.

6.5 THE POLITICS OF EFFICIENCY AUDITING

Recent studies have shown that accounting is neither a neutral nor unbiased function [Richardson 1987; Tinker 1980; Hopper and Macintosh 1990; Miller and O'Leary 1987]. Accordingly, accounting can be seen as a means used by political groups, in the sense of identifiable power and influence groupings, to maintain and extend their ascendant position. Accounting technologies, including state audit, are artefacts which are manufactured "as responses to social and political pressures " [Lowe and Tinker, 1977, p.266]. Audit reports are now seen to be very heavily tainted as political instruments. Unqualified audit reports have been used by management in the private sector as statements of approval of their actions and, therefore, as a means of lulling shareholders into believing all is well with what otherwise appears to be a profitable firm. As a political instrument, accounting has the advantage of working largely invisibly. Accounting surreptitiously legitimates actions through the provision of what is seen as hard, objective evidence. It allows resources to be redirected under a cloak of rationality and good management and the groups which supervise the contents of accounting reports to remain anonymous and untainted by allegations of unfair play.

Until recently these political dimensions to accounting and its associated function of auditing were left unrecognised, however well known they were in practice. In particular, as a recent study [Funnell 1990] indicates, examination of the political dimensions to accounting practices in the public sector has attracted little of the researcher's attention. This is despite the more obvious politicisation of the public sector. In Funnell's paper it was shown how appropriation accounting, the supreme form of public sector accounting, was motivated by the desire of parliament to control

any threats to Parliament's hegemony which may arise from within the Executive. Appropriation accounting was blatantly and unapologetically a means of protecting the interests of one group against others. In this it was aided and abetted by a sympathetic form of state audit as this current work has shown.

State audit in the Westminster democracies contained in this study has assisted in the structure of meaning by supporting a particular, instrumentalist conception of accountability. It has reinforced and promoted partial meanings of accountability and thus sustained the given configuration of interests which benefit by these interpretations. As a means of exercising accountability, auditing practices

embody frameworks of meaning, are articulated by modes of communication and institutional routines, and both express and contribute to the re-creating of relations of power [Degeling 1988, p.12].

Restricting state audit to narrow financial and administrative codes of accountability and their accompanying legal, economic and technical rationalities⁷³ precluded or impaired other values and rationalities from being promoted, in particular those derived from economic and political rationalities [Gray and Jenkins 1985, pp.180-181]⁷⁴. Financial codes have been dominated by legal rationalities: the Executive has been required to adhere to constitutional conventions and proprieties which were originally meant to emphasise the pre-eminence of Parliament. Economic rationalities prior to the management reforms in the seventies received symbolic consideration. This, as chapter 3 has shown, was a reflection of the interests, values and relative power standing of people at the time modern state audit developed. Once these values were transmogrified through a confined definition of independence into a limited set of state audit powers and practices, they were able to be carried forward unobserved for over a century and in the case of Australia continue to dominate state audit.

73. A rationality is a means of attributing meaning to action [see Gray and Jenkins, 1985].

74. Gray and Jenkins define codes of accountability as "sets of meanings which bind the steward and the principal and which govern the liability of the steward to present an account of the conduct of the stewardship" [1986, p.180].

Efficiency auditing provided the opportunity of liberating Australian state audit. It has been demonstrated in this chapter that, compared to financial or compliance auditing, efficiency auditing can be far more potent because it is a highly intrusive form of audit. Efficiency auditing, according to Garrett, gave "public accountability a force and meaning" it had never previously enjoyed [quoted in RCAGA, Appendix Vol.4, p.160]. Consequently, efficiency auditing became the target of contest and negotiation. Financial audit mainly affects only the lower levels in public sector agencies, although agency heads and ministers will be held accountable in the last resort. In practical terms, however, it will be individuals given day-to-day responsibility for the use of and accounting for appropriated monies who are most apprehensive in the presence of the financial auditor. Efficiency auditing shifts the point of specific accountability to higher management levels. What becomes questioned is whether the right decisions were made as to how to best use the appropriated money; not were all 't's crossed and all 'i's dotted in the accounts. Efficiency auditing questions higher level management skills, not accounting prowess, and is concerned with controls exercised by management over the use of resources to achieve the goals of the Executive as approved by Parliament. This is not to deny that an unfavourable financial audit could also embarrass governments and threaten ministerial careers. With efficiency auditing, in general senior management may have been prepared to accept the auditor's limited criticisms of their subordinates but were not pleased

when their own performance ... (was) questioned. Now that efficiency audits aim at a level of activity where the chief executive has had a strong personal input, the process meets a deal of influential resistance [Monaghan 1989, p.4].

Concern expressed by the Working Party of Officials in April 1977 that "the development of the system (of efficiency auditing) is to be gradual" intimated that a heavy handed approach to the implementation of efficiency auditing would quickly run

into difficulties because of its ability to probe into sensitive areas. An early note of caution had also been voiced by the well known public sector commentator and expert Professor Spann when he warned that

the worst thing that could happen would be the sudden eruption into departmental affairs of newly recruited and zealous 'efficiency experts'. Any unit charged with this task will have to begin slowly and selectively and with a due sense of its own limitations [RCAGA, Appendix Vol.1, pp.163ff].

Sir Arthur Tange's evidence before the RCAGA gave the EAD ample warning of the opposition they could expect from senior administrators if the emphasis was on the "registration of verdicts" instead of investigation and illumination of problems [RCAGA, Vol.4, Appendix 4F, p.171].

The work of efficiency auditors was all the more sensitive because they would be reporting on the performance of the Executive's managers *directly* to Parliament as required by section 48F of the amended *Audit Act 1901*. Sir Arthur Tange warned that efficiency auditing would force Permanent Heads to speak out to defend themselves if they found themselves "impaled on criticisms by the Auditor-General ... of an activity which, in their opinion, derives more from ministerial direction and judgement than the deficiencies of themselves or their subordinates" [*Financial Review*, 13 May 1977]. There was, therefore, far greater potential for an adverse political backlash if the *management* of public resources was reviewed unfavourably as opposed to an unfavourable report on the traditional accounting and supervisory pedanticism of the Executive's relatively more junior employees.

The wide exposure and intense discussion given to the efficiency audit reports also ensured that departments would attempt to destabilise the function. Those being evaluated quickly realised that much more was able to be exposed with efficiency auditing and therefore there were more opportunities for censure. Efficiency auditing therefore had the potential to be a threat: it *potentially* empowered the state auditor as

never before. The greater this threat the more that those being threatened, politicians or departmental managers, would seek to capture the process and use it for their benefit or debilitate it. Auditor-General Monaghan believed that, as a result of the impact of efficiency audits, in Canberra there arose

a tacit understanding among the senior bureaucracy that the AAO had to be kept in close check, both in respect of its performance auditing activities and its financial statement auditing [1989, p.2].

The principle of ministerial responsibility in Westminster democracies made the stakes much higher with efficiency audits, bringing state audit into the political firing line [*The Canberra Times*, 27 February 1976]. Ministers could now be

placed in a situation of frequently explaining or defending government policy in the context of suggestions made by audit. It could even be said that Ministers could be accountable to the Auditor-General for a range of policy matters ... (T)he Auditor-General would then be challenging the conventions of political accountability for the actions of the government [Expenditure Committee, February 1982, p.15].

This has prompted some observers to query whether the changes in state audit have gone too far, particularly when value-for-money audit

is not an objective review technique, but involves a great deal of judgement in each of its stages of application. It is not fitting that reports generated under its procedures should be reviewed externally by an officer without any electoral base [Sutherland 1980, p.616].

When the auditors could not be directly influenced to be 'reasonable' then political pressure from departmental heads (only departments were audited by the EAD) could be directed through their Ministers who certainly do not want their departments publicly criticised in efficiency audit reports. Criticisms of efficiency auditing from Ministers, either inside or outside Parliament, because they were one removed from the evaluated manager, would have less of a ring of self interest. However, in their criticisms Ministers were walking a very fine line between interfering with the

independence of the AAO and the right to make legitimate comments on the technical proficiency of the AAO's efficiency auditing. Thus, criticisms had to be seen to be directed at objective criteria of performance: the overly ambitious breadth of coverage of efficiency audits, the timeliness and hence relevance of the reports, the technical expertise of the efficiency auditors or the logical basis of conclusions.

6.6 CONCLUSION

The central argument of this thesis has been that although state audit independence has been limited the state auditor has been accepted as an officer with considerable ie. *substantive*, independence. The criticisms of efficiency auditing detailed in this chapter exposed the shallow nature of state audit's independence and the relative position of powerlessness it occupied in comparison to the central co-ordinating departments and even in some ways the other departments. Chapter 2 demonstrated that the image of state audit independence relied upon independence defined in terms of: statutory provisions surrounding the appointment, payment and dismissal of the person of the Auditor-General; the state auditor's freedom to choose whichever techniques he feels necessary to carry out his compliance audit and financial audit functions and the state auditor maintaining a position of strict separation from his auditees. The latter condition was particularly important for establishing a convincing scenario of the independence of the state auditor's Office, as opposed to the state auditor himself, because its independence was not guaranteed by any legislation. Strict separation from auditees was also the most publicly accessible manifestation of the state auditor's independence. Assurances of the autonomy and separateness of the state audit Office from Executive auditees, therefore, were a persistent feature of state audit. This was the public face which the state auditor sought to sustain. If this prop of independence fell away then the inadequate basis of state audit's independence would be that much more obvious.

Consequently, it was crucial that the auditors did not get too close to their targets. The traditional form of independence not only demanded this, its very survival was conditional on it being sustained. This chapter has shown that the vision of Steele Craik and Jones' for efficiency auditing as a means of assisting improvement in management which would require close association between auditor and auditee challenged this key element which had been supporting the image of independence promoted since 1901. The question would then arise: if the state auditor's independence is no longer significantly constituted by a strict separation from the operations of auditees then of what does it consist? In this regard the Berthelsen affair sorely tested the credibility of the state auditor's independence.

It has been demonstrated that Jones' practices, especially his insistence that draft conclusions be given to the auditee, constituted a move to a new conception of audit independence which could tolerate close association between auditor and auditee in certain matters. For traditional conceptions of independence Jones' actions were anomalous and threatening. The best way to reduce the threat was to withdraw from the auditees and if this was not enough then to reduce the emphasis on efficiency auditing. Attempting to substitute a new conception of what constituted the conditions for audit independence for existing interpretations was bound to be contested by the Executive.

The only way Brigden could accommodate the new approach of Jones was if the traditional conception of independence changed. For this to change the basis upon which it was constructed would also have to be modified. From Brigden's report in 1983-4 it was apparent that the change needed was greater control for the state auditor over audit resources and/or more resources. Resource and organisational independence similar to that pertaining in Britain and Canada in 1984 would have to be substituted for strict operational separation from the auditee. The history of Australian state audit, however, has shown that the Executive at the time had never allowed this to be

considered a permissible alternative and would be unlikely to do so in the future. Consequently, Brigden apparently believed that the only alternative was to retreat from efficiency auditing.

If efficiency auditing is carried out at the behest of Parliament one question which immediately arises is whether the intentions of the Parliament which extended the mandate of the Auditor-General to include efficiency auditing coincided with that of later Parliaments. The Fraser Government was induced to take on efficiency auditing not by conviction [Interview with M. Aldons, 16 August 1991] but in Monaghan's view without "having ... really thought about whether it should happen" [1989, p.41] or considered the possible repercussions. Salving the public's outrage at an inefficient and costly bureaucracy by setting the Auditor-General loose with efficiency audits amounted to, on numerous occasions, the government setting itself up as an easy target for the opposition. Therefore, subsequent governments, and Auditors-General, were bequeathed an unwelcome implement of questionable and uncertain loyalty. Efficiency auditing's greater public profile and capacity for penetrating examination of what went on in the Executive made it unpredictable.

Establishing efficiency auditing opened a Pandora's box for successive governments on both sides of the political divide. Once opened it was not possible to go back easily. Efficiency auditing came to gain a purpose and effect which exceeded those originally envisaged. Some of the lost ground could be retrieved by the Executive by maintaining a tight control over the resources available to the Auditor-General thereby inhibiting the Auditor-General's ability to conduct efficiency audits and limiting the potential for threatening conclusions [see Monaghan 1989, p.42]. In the concluding chapter, these tactics are shown to have been very successful but at the same time damaging to the present audit office.

CHAPTER 7

CONCLUSIONS AND AUSTRALIAN STATE AUDIT INTO THE 21ST CENTURY

Frequently, there will be a gap between the policies which mobilised interest and the specific accounting practices that result from them ... When subsequently taken up and used in decision making and policy formulation, practical accountings can, and do, have the potential to result in consequences very different from those originally envisaged ... [Hopwood 1984, p.176].

CHAPTER 7

CONCLUSIONS AND AUSTRALIAN STATE AUDIT INTO THE 21ST CENTURY

7.1 GOVERNANCE, STATE AUDIT AND INDEPENDENCE

7.1.1 The Discourse of Independence in Episode One of the Evolution of State Audit

This thesis has shown that the portrayal of state audit as an independent function of Westminster governance has been socially and politically constructed and is not solely a response to the technical demands of audit. This thesis has argued that instead of being a purely instrumental function to ensure that the Executive is made accountable to the Parliament, state audit has also assisted successive Executive governments in establishing their legitimacy. State audit prior to the period of reform starting in the mid 1970's was used by the Executive to demonstrate that it respected the wishes of Parliament and thereby was a responsible constitutional partner of Parliament in governance. Favourable audit reports also conveyed the message to the electorate that the Executive was a good administrator which took seriously its obligations to ensure that the resources given to it were properly controlled. Essential to the Executive's purposes was the promotion of a believable image of state audit as an office with *substantive independence*.

Through an examination of the two most significant episodes in the evolution of Australian state audit, this thesis has disclosed the existence of a very resilient discourse of independence in Australian state audit. An examination of the lineage of this discourse disclosed how it was sustained and exposed the complicity of the Executive in the perpetuation of the discourse in the Executive's own interest. It has

been shown in Chapter 2 that this discourse has managed to confuse differences in the legal status and powers of the head of state audit, the state auditor, and members of the audit office. This has enabled the guarantees of independence for the person of the state auditor to be seen as also pertaining to his Office. There have been, however, no legislated protections, or any arising from conventions of practice, for the independence of members of the state audit office.

The first crucial episode in the evolution of Australian state audit, as covered in Chapter 3, encompassed the developments leading to the British *Audit Act* in 1866, the greatest influence on 20th century Australian state audit, and the origins of the discourse of independence in state audit. It was shown that a very limited, and therefore controllable, role was envisaged for state audit when it attained its final form in the *1866 Audit Act*. The state audit which emerged from provisions of this *Act* was little different to that which had persisted throughout the 19th century, especially in the domination by the Executive, both financially and administratively, through the Treasury of the Office of the state auditor. The only significant changes throughout the evolution of state audit to 1866 were the redirection of some of the state auditor's reports to Parliament and recognition of the independence of the *person* of the state auditor to ensure that he could report to Parliament. The purpose of state audit, as contained in the *1866 Audit Act*, was to see that money given to officers in the Executive could be accounted for in exacting detail and to ensure that the Executive had spent for the purposes approved by Parliament and not more than permitted by the Appropriation Acts. By appearing to guarantee the independence of the state auditor through appointment and remuneration provisions in the *1866 Audit Act*, the impression was created that by association the *Office* of the state auditor would also enjoy the same degree of independence. Promoting the image of an independent state audit office suited the purposes of the Treasury which throughout the 19th century was on the ascendancy. The Exchequer and Audit Department, as the Audit Office was

known after the *1866 Audit Act*, provided another lever for the Treasury to influence the spending of departments and strengthen its own position.

Within the form of governance operating at the time in Britain, the form of state audit provided by the *1866 Audit Act* was appropriate. The process of audit was relatively simple, easily understood by both auditor and auditee and it had the appearance of being objective. All the auditors had to do was follow Treasury regulations and ensure that other departments were doing the same. The auditors may have been required to send some of their reports to Parliament but it was on the basis of Treasury directions which they carried out their audits. Accordingly, the need for *both* the members of the state audit office *and* the statutory head of the Office to have *substantive independence* was not seen as relevant or necessary, especially when Parliament and the Executive favoured greater centralised control over the financial operations of all government agencies. Certainly they saw no reason to make an exception of the insignificant Exchequer and Audit Department.

For state audit to concern itself with the operational or management performance of the Executive ie. its efficiency and effectiveness, would have been inconsistent with the features of mid 19th century governance from which it was created. Observations of waste or uneconomic practices were accepted as reminding the Executive of the need to be prudent and responsible in what it purchased. To go further and question or criticise the Executive's choice of activities upon which the money had been spent was regarded as an unacceptable intrusion into the right of the Executive to get on with the business for which it had been elected. Thus, the idea of a fearsomely independent state audit function which would be able to harry the Executive at-will for poor performance was alien to the time and was not a sacred feature of the British Constitution.

Perpetuation throughout the 20th century in Australia of a public service culture focussed on accountability for inputs and strong financial control exercised from the

centre by the Treasury meant that 19th century audit principles continued largely unchallenged until the 1970's. Around this time, as demonstrated in Chapter 4, the suitability of traditional forms of accountability within Westminster governance and the role of state audit were increasingly questioned as a new, managerial form of governance began to take hold in response to the harsh economic times of the 1970's.

With the onset of efficiency auditing, which made the Executive susceptible to greater scrutiny, a crisis of state audit independence emerged in the late seventies. No longer could the state auditor rely upon customary beliefs about his role and position. The previous *modus vivendi*, which Auditor-General Monaghan had seen as accommodating "the *special independence* of the Auditor-General along with the practicalities of the administrative machine" (emphasis added), was changing for the first time since the inception of Australian state audit in 1901 [AAO, *Annual Report 1984-85*, 1985, p.5]. Tracing the emergence of this hiatus in state audit and its effects on state audit independence and the practice of audit through the second episode in the evolution of state audit identified in this thesis, has been the subject of Parts II and III of this work.

7.1.2 State Audit Reformed: Episode Two in the Development of State Audit

The trend throughout the 20th century has been towards stronger Executives and weaker Parliaments. Parliament is no match for the strength of the Executive and the rigid control of the Party over its members [Evans¹ 1991, p.11]. All politicians know that, apart from approved conscience votes, they defy the wishes of the party at the peril of their political futures. Parliament makes the laws in the name of the majority party and disciplines as and when permitted by the Executive with the result that the Party has been effective in managing i.e. limiting, the accountability of the Government to the Parliament [Evans, in Kukathas 1990, pp.6-7]. Therefore, in the current parliamentary climate, comprehensive and effective accountability of the Executive to

1. Clerk of the House of Representatives.

Parliament for the management of its programs is unlikely to be as effective as constitutional theory would indicate [Senator Rae, *Newsletter of RAIPA*, ACT Group, June 1977]. In the view of one commentator, the House has become "a sadly repressed and debilitated chamber" [Thynne 1983, p.84] with the result argues Evans, after a long association with Parliament, that

we have embraced the very situation which our founding philosophers warned us against as the very epitome of tyranny: the concentration of the legislative and executive powers in the same hands ... [Evans 1991, p.49].

Accordingly, parliamentary control has come to mean something very different to the 19th century conceptions which drove the Australian constitution and which continues to be part of the folklore of beliefs which surround Parliament.

In Chapter 4 the audit reforms in Canada and Britain in the 1970's were addressed as a means of establishing the influences which were now coming to bear on Westminster conceptions of accountability and on state audit and to review the responses in state audit to these change agents. It was established that in both Britain and Canada the independence of state audit was strengthened when the legislated mandate of state audit was expanded to include performance or value-for-money type audits. For a number of reasons, the Canadians were particularly successful in establishing and having accepted a legislated performance audit function in the late seventies. At least initially, this was in large measure due to the committed and recurring involvement of the private sector in state audit reform. This was very different to Australia and Britain where the state auditor did not receive the active support and practical assistance of private sector accounting and management consulting firms. Access to the private sector not only expanded the sources of expertise available to the Canadian Auditor-General when performance auditing methods and approaches were being developed

but, more importantly, it also created a wider base of support and concern for the success of performance auditing.

Another key contribution to the success of state audit reform in Canada was the selection of Auditors-General in the 1960's and 1970's from the private sector. These Auditors-General brought with them a different culture, different sets of expectations of public service auditors and managers and came unencumbered with the obligations which may have accumulated during a long public service career. In addition, performance auditing was not alien to them, it was something which they had experienced successfully as management audits in the private sector. By way of contrast, in Britain and Australia performance (efficiency) auditing was an unknown quantity, despite claims by state auditors that concern for efficiency had been a long standing feature of state audit. The private sector careers of Canadian Auditors-General Henderson and Macdonell meant also that they did not have the same aversion to private sector auditors as their colleagues in Britain and Australia. Until Auditor-General Taylor (1988-), Australian state audit had unwaveringly advocated that financial accountability of the Executive to the Parliament could only be ensured if all agencies were audited by the state auditor. The Canadian Auditors-General saw that the accountability of the Executive to Parliament would not be threatened if audits were carried out by the private sector.

Introduction of performance auditing in Canada was preceded by an extended period, starting with the appointment of Henderson in 1960, throughout which Canadian Auditors-General were prepared to take on a very public and active opposition to the Executive when it attempted to reduce the effectiveness of state audit. Unlike their colleagues in Australia and Britain, Canadian Auditors-General were far less compliant in the face of Treasury oppression. This does not mean that British and Australian state auditors were at the command of the Executive, only less likely to question the framework in which they worked. In Canada, a combination of economic

circumstances plus the well publicised antipathy between Henderson and the Executive reached the critical mass necessary for change under Macdonell. After the damning evidenced provided by the Financial Management Control Study (FMCS) and the Study of Procedures In Cost Effectiveness (SPICE) inquiries, pressures for the reform of Canadian state audit which had been sustained over a long period could no longer be resisted.

Once performance auditing was implemented in Canada it had the benefit of concurrent developments in provincial audit offices, allowing experiences to be shared between audit offices, culminating in the establishment of the Canadian Comprehensive Auditing Foundation in 1980. In Australia not only was very little happening in the states in the early seventies in the direction of efficiency auditing but there appears to have been little sharing of experiences and an unfortunate level of ignorance of developments and practices in adjacent audit jurisdictions [see JCPA, 1988, *Reform of the Australian Audit Office*, Minutes of Evidence, Humphry (Victorian Auditor-General), 2 June, pp.472-4].

With the benefit of hindsight, the Canadian (and later British) decision not to segregate performance auditing from the mainstream traditional state audit was a great advantage. It allowed performance auditing to be embraced by traditional audit as part of a comprehensive auditing approach. In contrast, the separation of efficiency auditors and financial auditors in Australia, as developed in Chapter 6, engendered differences and antagonisms which impeded movement to a fully integrated, comprehensive audit function. By the Canadians incorporating performance auditing within the established audit structure it made all auditors identify with the problems as well as the successes of performance auditing. In Australia, the separation of efficiency auditing allowed the traditional auditors in the AAO to disown the EAD and to hold themselves out as its saviour while at the same time being its executioner.

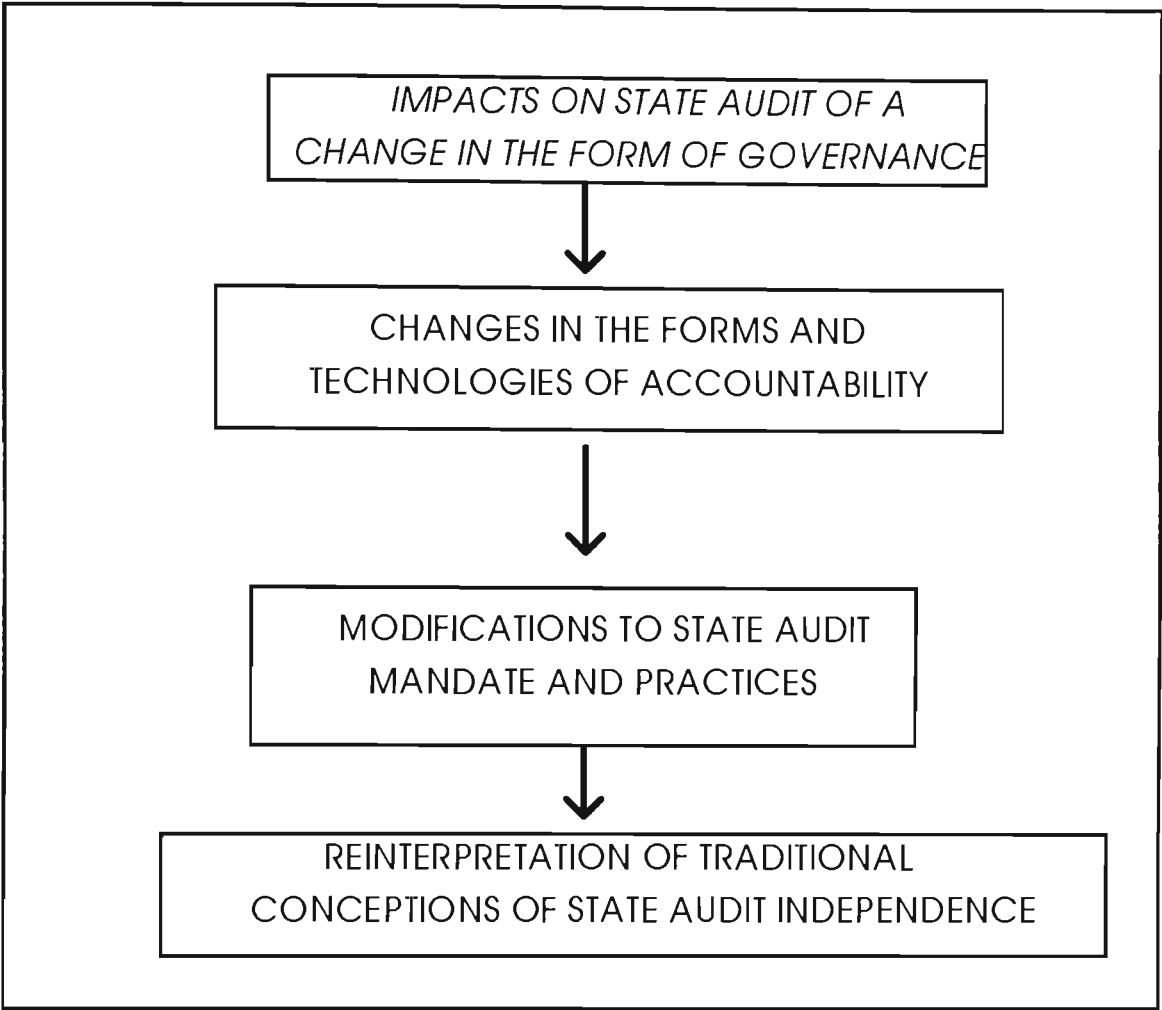
A crucial factor in the acceptance and success of performance auditing in Canada and Britain was its introduction in an environment in which extensive public sector management reform had already occurred. Foundations had been laid for state audit reform and inroads had been made into the traditional and moribund public service culture which was obsessed with accountability for inputs. Unfortunately, Australian state audit did not have the benefit of a long period of public service preparation and gestation for the introduction of efficiency auditing. Whereas the form of audit which had been completed in 1866 was the consistent product of governance in Britain in the mid 19th century, and therefore very durable, Chapter 5 has shown that the changes which were introduced to state audit in Australia during the 1970's, as part of the second major episode in the development of state audit, were not answers to well developed accountability demands. They were not the consistent outcome of a period when a new form of governance had been established and new institutional arrangements had been clarified and given time to mature. This had been the case in Britain in the 19th century and, as noted above, largely accounts for the success of Gladstonian audit in meeting the needs of Westminster democracies for so long.

In Chapter 6 it was established that at the root of most of the problems experienced by the EAD was the attempt to establish a new form of audit in the late 1970's which in many ways preempted the form of governance it was designed to serve. Constitutional implications of the impending change in governance, especially those affecting modes of accountability, had not yet been settled nor had coordinate institutions been put in place. In these circumstances the state auditor was thrust into the vanguard of a governance in transition instead of falling behind and meeting new demands placed upon state audit. While audit *technology* can be proactive, state audit cannot initiate modifications to governance to be compatible with what audit might be trying to achieve.

The new, emerging form of governance in the latter decades of the 20th century which stressed the importance of performance outcomes forced state audit to re-examine its role and the long standing relationships and understandings between the state auditor and the Executive. The administrative governance inherited by the Australian Commonwealth Government had generated a comfortable relationship between the Executive and state audit which relied upon the state auditor remaining outside political debate: state audit was discouraged from making any observations which could be construed as adverse comments on Executive policy. Both the Executive and the state auditor were adept participants in this audit performance. In the 1970's no longer was it sufficient for public servants to meet their accountability obligations by a careful rendering of accounts showing the source and destination of inputs. Public sector managers would have to take responsibility for the efficient operation of their departments. Meticulous recountings by departments may have been enough when the main task of state audit was to satisfy Parliamentary concerns about fraud and the need to ensure that the Executive was working within the financial limits permitted by Parliament. In an environment where good management of resources was assuming importance, these concerns of state audit, while still relevant, would need to accommodate efforts to promote improved performance as interpreted through measures of efficiency and effectiveness.

Change to the form of governance from an administrative to a managerial form in the 1970's, therefore, was essentially a challenge to outmoded forms of accountability. As Figure 7.1 illustrates, a shift in accountability regimes had to be associated with new technologies of accountability if the new demands were to be enforced and reinforced. It also brought about a realignment of the relationships between DOF, PM&C and the Auditor-General as the main evaluators of Executive performance. Whereas previous to the introduction of efficiency auditing state audit was an accepted and tolerated constitutional element, with its greater impact and changed role flowing from efficiency auditing its position and independence became more ambiguous and problematic.

Figure 7.1



Striving to introduce efficiency auditing and make it successful within an emerging, new form of governance was contrived from the beginning and as the EAD attempted to make it work the problems were compounded. The EAD's difficulties were reflected in reactions of individuals, auditee resistance and an increasing disenchantment on the part of Parliament with efficiency auditing. The difficulties faced by the Australian state auditor in the implementation of efficiency auditing placed the state auditor in a very uncomfortable position, both professionally and constitutionally. His response was to retreat from efficiency auditing, at least for the time being and until conditions more conducive to its new troublesome role improved. The shift of emphasis away from efficiency auditing and back to narrow accountability concerns eventually allowed efficiency auditing to recover its equilibrium and the opportunity to reduce the

contentious nature of the process. A reduction in emphasis on efficiency auditing in favour of project audits also enabled the Auditor General to provide some breathing space to reorganise. Chapter 6 has demonstrated that Brigden's redirection of efficiency auditing can be seen as a response to the incompatibility of Jones' conception of efficiency auditing with the form of governance in which it was placed. Jones was attempting to carry out a form of audit which relied upon a structure of program goals and performance measurement criteria which had not yet come into existence. Agreement on a set of formal and publicised objectives had not been a feature of traditional administrative forms of governance. Consequently, it's not that efficiency auditing was caused to fail, so much as conditions did not exist to provide efficiency auditing with the *opportunity for success*. This would not occur until the advent of the Hawke government in 1983 when the metamorphosis of Australian governance was hastened.

To defend itself against unfavourable efficiency audit reports from the state auditor, the Executive has attempted to disguise the self interest of its dissatisfaction by suggesting that the state auditor's poor record in efficiency auditing derived from the incompatibility of efficiency auditing with the essential and limited goals of traditional audit and, by drawing the state auditor into the management of the auditees, brings his Office into conflict with the overriding need to maintain an independent stance. Accordingly, the state auditor has been strongly recommended to "back off" from efficiency auditing to avoid debasing his reputation as an "independent and objective" officer [MacGibbon, Senate debates, 17 December 1992, p.5409]. Sutherland [1991] and Cronin [1990] have been critical of the way in which performance auditing has placed the state auditor in an altogether too powerful position which is entirely inconsistent with his accepted constitutional role. According to David Block, who had been brought in by the Hawke Government in the mid-1980's to carry out some Rayner-type scrutinies,

that we should now give ... to the Auditor-General the role of a major central co-ordinating agency doing audits, performance reviews, the whole range of what management should do, does not work [quoted in Cronin 1990, p.34].

Cronin has been particularly scathing of the way that the results of efficiency audits, which were advocated primarily to assist management in the running of Executive agencies, instead have been seized upon by the Opposition in Parliament as one of the main mechanisms to enforce the accountability of the Executive [Cronin 1990, p.25]. The Opposition members, as to be expected, are only too happy for the state auditor to delve into the depths of government agencies and to proclaim the faults from the rooftop of Parliament House [Walsh, Senate debates, 1 November 1989, p.2717].

Notwithstanding the problematic history of efficiency auditing the AAO has until recently maintained it alone is best equipped to carry out efficiency audits and that constitutionally it is right and proper that the AAO audits efficiency on behalf of Parliament. Recently, however, some cracks of self doubt appear to have broken the auditors' confidence. Former Deputy Auditor-General C.T. Monaghan has questioned whether government auditors gave serious and sufficient consideration in the first place as to whether it was appropriate for them to embrace efficiency auditing. Instead it may have happened because

in the cloistered environment of their international conferences ... (they) have decided that it is more fun to audit management performance than just to audit the books [1989b, p.41].

He also questioned, in the same paper, whether "the mindset of an auditor is the appropriate one to advise on performance and efficiency" [p.45].

The second episode of Australian state audit (1974-84), therefore, was a very difficult time, a time in which the predominant responses to efficiency auditing were aggressive opposition and defensiveness. At the close of 1984 when Brigden was preparing to

retire, state audit had become even more unwelcome by auditees and the butt of caustic, even delighted criticism.

7.2 AUSTRALIAN STATE AUDIT INTO THE 21ST CENTURY

7.2.1 The Auditor-General Ally Of The People And Parliament: The Inquiry Of The JCPA Into The Audit Office And The Aftermath

Increasing dissatisfaction with efficiency auditing and persistent complaints by Auditors-General that they had insufficient resources to do both the mandatory financial/compliance audits and discretionary efficiency audits led the JCPA in 1988 to announce that it would conduct an inquiry into the AAO, the first major inquiry since 1901. The aim of the investigation was to determine whether the AAO had kept up-to-date with developments in audit and whether current arrangements guaranteed the independence and resources necessary for the Office to fulfil its mandate, including the conduct of efficiency audits [JCPA, 1989, *Report 296*, p.243].

In its report (Report 296) tabled on 6 April 1989, the JCPA made 78 recommendations. It arrived at "a conditional no" on the question of whether the AAO had kept up-to-date and came out with a very strong negative on whether "current arrangements guaranteed the independence and resources necessary for the AAO to fulfil its role as determined by the Audit Act 1901" [*Report 296*, p.243]. It was generally complementary about the standard of the AAO's work but concluded that the AAO's independence was threatened because of the financial and staffing control over its operations by the central co-ordinating departments ie. a lack of *substantive independence*. It was also unhappy with the level of state audit funding, recommending an immediate increase in resources available for efficiency and project audits. To protect the independence of the AAO the Committee recommended that the present *Audit Act* be replaced by two Acts: a new *Audit Act* and a *Financial Administration Act*, in a similar fashion to Canada [*Report 296*, pp.xvii,239,240]. They also recommended that a Parliamentary committee be established, as in Britain, to oversee

the operations and financing of the AAO and to make it clear in the revised legislation that the state auditor was to be an officer of Parliament [*Report 296*, p.239]. Funding control of state audit at the same time would be taken away from DOF and instead the necessary funding for the AAO would be contained in the Appropriation (Parliamentary Departments) Bill [*Report 296*, p.xix]. The other significant recommendation designed to enhance the independence of the AAO was its establishment as a statutory authority headed by the Auditor-General who would have complete authority over his staff and their conditions of appointment, it was observed, in a similar manner to Britain and Canada [*Report 296*, p.xviii].

The radical changes recommended by the JCPA were rejected by the Government which begrudgingly referred to the report as a "catalyst for debate, and for change" [Walsh, Senate debates, 1 November 1989, p.2720]. Senator Walsh (Minister for Finance) dismissed the Committee's concerns about the inability of the present *Audit Act* to ensure the independence of the Auditor-General, arguing that the current *Audit Act* was more than sufficient to ensure the independence of the Auditor-General. Accordingly, because his Government did not accept that the independence of the Auditor-General was at issue the Government saw no advantage to Parliament, the Executive or the Auditor-General in making him an officer of Parliament and thereby, for the first time, unambiguously severing his Office from the Executive [Senate debates, 1 November 1989, p.2718]. He also rejected the need to separate the AAO's funding from DOF control, indicating that it was the Executive's right and responsibility to control the funding of all publicly funded agencies. He did make the concession that the Government would consider making the AAO a statutory authority but only after a thorough review of the Office's work practices to establish whether, under existing arrangements, they were using their current resources in an efficient and

effective manner². The implication was that if the AAO was found to be deficient there would be no grounds for change.

The Opposition, forgetting its own long history of neglect of state audit, seized upon the Government's reluctance to implement the JCPA's recommendations as confirmation of the scornful regard which the Government had for an independent state auditor [Watson, Senate debates, 1 November 1989, p.2724].

A stronger state auditor is not something which members of the Government contemplate with enthusiasm, and something which the Opposition with its eye on gaining office might be aware of pushing too hard. In the meantime, the ability of the state auditor to ensure that the Executive in all its guises is held accountable continues to suffer. As the remaining sections will illustrate, each project or efficiency report which is critical of the Government seems to increase its approbation towards state audit. Politics is above all else characterised by conflict and competition. Political actors do not engage in political competition with the intention of being content with grasping the prize for a limited period. The aim is to take the citadel of power and to fortify it against all forces which attempt to usurp power. This may also call for the incumbent to control any participants in the political process, no matter how benign their motives, which could prove to be sources of threat by being useful to the opposing forces. State audit has been notable since the early 1980's for the displeasure it has attracted from the Executive as a consequence of state audit's new and now unwelcome concerns for Executive performance. It could therefore expect the Executive to attempt to limit the potential for future assaults. Sharkansky [1975] has observed that "an 'uppity' auditor is likely to find numerous antagonists who wish he would stay with the high desk and green eyeshade of the accountant" [p.281; see also Auditor-General Taylor, *The Australian*, 21 February 1994].

2. The review was carried out by a former South Australian Auditor-General. For details of the Sheridan Report see the Auditor-General's Annual Report, 1989-90, p.152.

7.2.2 Australian State Audit into the 21st Century

The appointment of John Taylor as Auditor-General in May 1988³ set state audit on a course which would eventually see the state auditor and the Executive in open and persistent confrontation which, by present indications, seems unlikely to be resolved while ever Taylor remains as Auditor-General⁴. Taylor was apparently under no illusions about the difficulties which faced his Office, in particular the Executive's determination not to enhance the independence of the Office. After less than a year as Auditor-General Taylor had begun to experience the same frustrations as his two immediate predecessors arising from insufficient resources to support both a strong efficiency auditing role as well as the mandatory financial and compliance audits. In a thinly veiled threat he warned the Government that

if I find that resources become so constrained that I'd no longer feel that I can do my job properly, I will do three or four or five or six efficiency audits and nothing more. I'll qualify all the accounts, say that I don't have the resources to do them all and the efficiency audits will be of the Prime Minister's Department, the Department of Finance and the Treasury [March 1989, p.27].

He urged the Government to act on the recommendations of the JCPA and give him the resources which would enable his Office to allocate 50% of his resources to efficiency audits instead of the current inconsequential level of 4% [March 1989, p11; *AAO's Annual Report 1989-90*, p.148]. In a restrained manner he complained that the Government's inaction seemed to arise from "a lack of appreciation of the role of external audit by some officials" [*AAO Annual Report 1989-90*, p.X]. A year later, still facing inaction on the JCPA's recommendations, Taylor again complained of the need to bring about long term improvement in the resource position and independence of his

3. He have previously been Consul-General in New York. Taylor joined the Australian Public Service in 1952 and proceeded to rise rapidly, passing through the Tariff Board, PM&C, the Public Service Commission and Secretary to the Department of Aboriginal Affairs [*The Bulletin*, 11 January 1994; *The Australian*, 21 February 1994].

4. Taylor is due to retire in 1995.

Office and for him to be given greater flexibility in the management of his Office [ANAO Annual Report 1990-91, p.xiii]. In very strong terms he lamented that his Office and traditional forms of Westminster accountability were in an even greater state of crisis than when the original observation had been made by the JCPA in 1989 [Report 296, p.243]. Again his complaints were ignored by the Executive, leading an increasingly resolute and angry Auditor-General to protest in his 1992 report, in what some members of Parliament characterised as an unprecedented manner [Baume, Senate debates, 15 September 1992, p.885], that

(t)here seems little comprehension of the principle of the independence of the Auditor-General, particularly from the executive arm of government. Because of this attitude I am reluctantly of the view that the future viability of the AAO as a force for genuine improvement and proper accountability is still at risk [ANAO Annual Report 1991-92, p.x].

He argued that for his Office to provide an independent and objective audit on behalf of Parliament it had to be given the status of a statutory authority, as recommended by the JCPA, to enable him to attract and retain sufficient staff with the necessary qualifications to meet the needs of state audit as it moves towards the challenges of the 21st century [ANAO Annual Report 1991-92, p.xi].

Irrespective of the state auditor's appeals, the Executive has continued to demonstrate great reluctance to introduce any change to the inhibitions under which the state auditor must operate. The Auditor-General's open criticism of the inaction of the Executive in his 1992 Report seemed to have the opposite result to that intended, instead increasing the Executive's determination that the state auditor would not be given similar powers to those of his colleagues in Canada and Britain. The Government has also taken opportunities to criticise both the state auditor personally and his Office's reports. In recent months the Government has been especially angered by the

publicity given to the Australian National Audit Office's (ANAO)⁵ more dramatic statements. When in 1992 an efficiency audit of the Department of Defence was leaked to the Opposition before its was tabled in Parliament, the Minister for Defence, Senator Rae, portrayed the incident as an example of poor management control in the ANAO and a want of professionalism in the Office. He also took the opportunity to impugn the ability of the Office to deal with the complex realities of modern government [Senate debates, 17 December 1992, p.5411].

The Auditor-General's report on the government's financial position in 1993⁶, in which the auditor stated that the Government was technically insolvent, brought another bitter attack on the Auditor-General, but this time from the Treasurer John Dawkins, after the findings were given considerable publicity in the press and in Parliament. Dawkins accused the state auditor of producing a report that was both untrue and highly irresponsible and, like Senator Rae, attempted to cast doubts on the qualifications, the professionalism and political allegiances of the Audit Office [HR debates, 26 May 1993, p.935].

With no encouragement from the Executive that it was in a hurry to address his concerns, the state auditor recently has responded to resource deficiencies by reducing his staff by 100 and giving more of the financial audits of statutory authorities and Government owned companies to the private sector [*Financial Forum*, September 1993, Vol.2, No.8, p.3; *Business Review Weekly*, 24 January 1994, p.85]. He indicated that he could not wait any longer for the Government to implement the JCPA's report and instead had to "take matters into ... (his own) hands". He saw his actions as the only means, in the face of Government intransigence, to ensure the survival of the ANAO as "the Parliament's independent review body" [*Financial Forum*, September

5. The one thing the Executive did allow was the AAO to change its name to the Australian National Audit Office, another JCPA recommendation based on the British example [see Chapter 4].

6. The Auditor-General, *The National Bankcard: Who Will Pay the Piper- A Report on the Financial Obligations of the Federal Government*, Audit Report No.34, 1992-93, Project Audit

1993, Vol.2, No.8, p.3]. He was not prepared to see performance auditing wound down any further.

An attempt was made in October 1993 with the introduction of a private member's bill, the *Audit (Auditor-General an Officer of Parliament) Amendment Bill* to force the Government to implement those findings of the JCPA's *Report 296* which affected the independence of the state auditor and his Office [HR debates, 21 October 1993, p.2348]. While there was little chance that the Bill would be passed, it was designed to provide a means of opening debate again in Parliament and the community on the position of the ANAO and attempt to embarrass the Government into action. It may have been more successful than was expected for during the Third Reading of the Bill in the Senate the Government indicated that a package of reforms to the *Audit Act* was already in the process of being finalised and it expected that the new Act would be presented to Parliament in that sitting [Senate debates, 28 October 1993, p.2778]. At the time of writing, the Auditor-General is still waiting. More that six years after the JCPA reported its findings on the AAO none of the JCPA's recommendations designed to improve the independence of state audit have been taken up by the Executive.

Throughout these developments the state auditor has had to be seen to be rigidly impartial between the two political sides. The only weapon he has to induce the Government to bring *substantive independence* to his Office is his own independence as Auditor-General. To be seen to take sides, however much his own views may accord with those of the Opposition, would provide the Government with the vindication they might need to cast the state auditor as a partisan participant whose reports, therefore, are tainted with political aims. This would destroy the ANAO's credibility as an objective, impartial auditor.

7.3 CONCLUSION

Since the upheavals of the eighties in state audit the state auditor has come to recognise that efficiency auditing should play a larger part in assisting DOF in improving departmental management, especially through the specification of objectives and the measurement of performance [Jacobs 1991, pp.148-9]. Closer working with auditees in the development of audit agenda would also contribute to making state audit more relevant. The state auditor is now more prepared to consider requests from Parliament for investigative assistance, at the same time ensuring that state audit does not become politically embroiled to preserve its independence. The state auditor now sees "it as an extremely valuable step forward in making ... (its) activities more sensitive to customer interest" [Jacobs 1991, pp.148-9]. State audit therefore, finally, has come back to the vision which Steele Craik and Jones had for efficiency auditing. It seems more probable that it will be private sector auditors who will carry out most of the efficiency audits as the Office moves to contract-out an increasing proportion of its audits.

The way ahead for the present Auditor-General promises to be even more difficult than over recent years. The present Government has shown, especially in light of the stresses which recent reports have placed upon the Government, that it will only reluctantly improve the conditions impinging upon the independence and therefore effectiveness of the state auditor's Office. As a result of recent sensationalised revelations of state audit in relation to the Customs Service⁷ [*Canberra Times*, 12 September 1993; *Sydney Morning Herald*, 9 February 1994] and the questionable funding allocation procedures of the Sports Minister Ros Kelly⁸, Taylor believes that the Executive is now trying to "close" him out [*Canberra Times*, February 4, 1994;

7. The Auditor-General, Audit Report No.25, 1993-94, *Australian Customs Service: Investigation Function-Directions of Change*, AGPS, Canberra.

8. The Auditor-General's criticisms in November 1993 of the way Kelly's department administered the \$30 million sports grants scheme eventually led to her resignation after she was pursued by the Opposition. Opposition finance spokesperson Peter Costello alleged that Kelly had sought legal advice in an attempt to deny the Auditor-General access to relevant documentation [*Telegraph-Mirror*, February 7, 1994].

The Age, 12 February 1994; *Financial Review*, 15 and 18 February 1994]. Departments are now more prone to question his rights of access to departmental documentation and are now more prepared to withhold information [*Sydney Morning Herald*, 9 February, 1994; Editorial, *The Australian*, 9 February, 1994]. It is highly unlikely that either of these actions would be used if the agencies involved did not feel that they had the sympathy and support of the Government and that they had the state auditor on the run.

As the antipathy of the Executive has increased towards the state auditor the Senate has risen as his effective and watchful champion. This has caused a shift in the fulcrum of Executive accountability from the House of Representatives to the Senate. Historically the proportional representation system of voting by which the Senate is elected has meant that the Executive has not been able to control the Senate on the same consistent basis as it has the Lower House. It is in the Senate that the remnants of parliamentary control have found their last and often beleaguered bastion. In particular, the growth of the Senate's committee system has provided the Senate with the organisation and the bite it required to hold the Executive to account⁹.

According to the present Auditor-General, the Government, irrespective of the Prime Minister's assurances of his Government's high regard for state audit [HR debates, 8 February 1994, p.503], "want an audit office that is seen and not heard, *and does what its told*" (emphasis added) [*The Age*, 12 February 1994; *Canberra Times*, 7 February 1994; *The Bulletin*, 11 January 1994]. Auditor-General Taylor has argued, that the Government's attitude could easily be construed as not wanting Parliament to be properly informed by controlling the flow of information coming from the Auditor-General to Parliament [*West Australian*, 12 February 1994].

9. A similar situation pertains in Britain.

The Executive's historical neglect of the audit office and its apparent preference for the audit office to return to its previous obscurity are reactions which this thesis has shown are out-of-step with developments in other countries where state audit has become an essential component in strengthening accountability for efficient and effective performance. Mounting pressures for change indicate that it seems unlikely that the Australian Government will be able to hold out much longer and continue to withhold from state audit the *substantive independence* which it has always been denied. With *substantive independence* should also come the conclusion to the long charade which has been the discourse of independence in Australian state audit.

APPENDIXES

(The first numeral describing an Appendix
denotes the chapter with which the Appendix is associated)

APPENDIX 2.1

SMITH'S MODELS OF GOVERNANCE

EARLY INDUSTRIALISATION	MANAGED ECONOMY	NEW POLITICAL ECONOMY
Early and middle 19th century Britain	Late 19th and early 20th centuries	Middle to latter part of the 20th century
Government intervention in the provision of social overhead capital	Laissez-faire gradually replaced regulated economy	Massive government intervention in all aspects of social and economic life.
Beginning of the mass-based political parties	Well organised interest groups such as trades union and strong political parties	Looser interest groups
Gentleman amateur in the civil service	Emergence of highly disciplined, hierarchical and professionalised civil service	Increasingly permeable civil service where professional energies are drawn from outside the government
Main concerns of interest groups-law and order, land grants, special charters and other favours.	Main concerns were the conditions of labour, promotion of economic growth and employment.	Preoccupation with the quality of life.

Source: Smith B. , "The Public Use of the Private Sector", in Smith B (Ed) 1975, *The New Political Economy: The Public Use of the Private Sector*, Macmillan.

APPENDIX 3.1

CONCLUSIONS IN THE FIFTH REPORT OF THE COMMITTEE ON PUBLIC EXPENDITURE 1810

The Committee was highly critical of :

1. the restrictions placed upon the audit of the Audit Board and the little discretion it was given
2. the ineffectual legislation of 1806 which produced no significant audit improvements
3. the inferior and subordinate status given to the Board of Audit when compared to the departments it audited
4. the degree of dependence of the Board of Audit on Treasury control and its consequent inability to have the final say on passing accounts
5. the number of unnecessary and useless forms and returns which delayed audit
6. the poor organisation of the Board of Audit whereby it was split into two largely autonomous units. Also the imbalance in staffing with too many highly paid people at the top who had little to do with actual audits and too few, hard pressed workers at the bottom
7. the partial coverage of audit given to the public accounts. Some accounts were audited by the Board of Audit, some by departments themselves, some by the Treasury and some not at all
8. extreme delays in audit which meant that any comments and conclusion were too out-of-date to be of any use
9. the ignorance of Parliament of the state of the public accounts because the accounts were normally not given to Parliament first but had to be communicated through the Treasury.

APPENDIX 5.1

ELECTIONS OF THE COMMONWEALTH GOVERNMENT

HOUSE	DATE	ELECTED PARTY
Representatives	2 December 1972	Labor
Simultaneous	18 May 1974	Labor
Simultaneous	13 December 1975	Liberal/Country
Representatives	10 December 1977	Liberal/Country
Representatives	18 October 1980	Liberal/Country
Simultaneous	5 March 1983	Labor
Representative	1 December 1984	Labor

APPENDIX 6.1

(a) The Efficiency Audit of the Post Office Counter Services

After a background study carried out in April 1980 the AAO met with the Post Office in July 1980. Motivating the decision to conduct the audit was concern by the Office that inclusion of a statutory authority in the audit program would provide balance against the predominant concern for departments. At the time, there were 10,000 counter staff which represented 30% of Post Office staff. The aim was "to examine, analyse and report on the effectiveness and efficiency of counter services provided at Post Offices". To achieve this the auditors set out firstly to investigate the role of the Post Office and the relevance of the location of Post Offices to fulfilling this role. The purpose of the counter services, resource use and the adequacy of existing planning, control and review processes for their effective management were all reviewed by the auditors. Collection of data commenced in July 1980 and was completed in December 1980. The report was expected to take six months to write, being available to the Auditor-General in August 1981. The draft report would then go to the Agency in September receiving the Auditor-General's final approval in October prior to submission to Parliament in November 1981 [R. Laing, Chief Executive Officer, Division E, Briefing Notes, February 1981, p.11].

Jones had been aware of difficulties which had arisen with the work of the last auditor assigned to this audit, David Berthelsen, and had discussed these with him over an extended period. Despite Jones' counselling and meeting with Berthelsen at least each fortnight he had found it very difficult to manage Berthelsen who seemed to be possessed of a consuming, missionary zeal for his work which prevented him from taking direction easily. Despite this, Jones argued that he had persisted in his direction of Berthelsen and had been able to modify his work in several important aspects [AAO, Minutes of meeting with the Auditor-General, 20 June 1985]. An examination of Berthelsen's submissions to the JCPA inquiry into the Post Office efficiency audit

confirms that he had adopted a very specific set of objectives in his work and that the achievement of these objectives was the preeminent purpose of the audit. The audit had very much become his audit as opposed to an audit on behalf of the Office.

(b) Efficiency Audit of the Excise Collection of the Inland Services Function of the Department of Business and Consumer Affairs

A number of factors convinced the EAD to conduct an efficiency audit of excise collection of the Inland Services Function of the Department of Business and Consumer Affairs. Excise duties of \$2,700m in 1979-80, which had expanded considerably since new procedures were introduced in 1965, represented a significant proportion of Government revenues. Control deficiencies were then discovered in the feasibility study.

The auditors concentrated on the collection of major excise duties from beer, spirits, tobacco and petroleum (excluding crude oil). In addition they focussed their attention on excise collections on imported goods held in licensed warehouses and diesel fuel. They were concerned with an examination of the process and rationality by which excise liability was set and the accuracy of measurements for excise purposes. Overarching the audit was an assessment of management controls over the quality, effectiveness and efficiency of inspection processes and measures designed to ensure coordination through clear communication and review procedures between head office and regional offices.

The auditors met with the department in July 1979, completed fieldwork in February 1980 and produced their first report for peer review in December of that year. It at the time of the writing of the Briefing Notes it was expected that the Auditor-General would receive a draft report in March 1981, that the agency would receive its report in April 1981 and that the completed report would go to Parliament in August 1981 [R. McClelland, Executive Officer, in the Briefing Notes, 1981, p.9].

(c) Efficiency Audit of the Nursing Homes

After extensive research between February and April 1979, culminating in an extended financial audit which disclosed areas of administrative weakness, the audit commenced in June 1979. The Nursing Homes Programs were selected because expenditure by the Commonwealth on aged care was a material component of total government expenditures. There was also considerable concern over the rise in these costs.

The audit focused on:

- o planning, control and evaluation by central management
- o admission of patients
- o standards of care
- o control of fees
- o process by which benefits were determined.

After the first formal meeting with management in May 1979 fieldwork commenced in the following month and continued until December. It then took until June 1980 to produce the first draft of the efficiency audit report which was submitted to the Auditor-General. The final approved draft was sent to the Agency for their comments, as required under Section 48F(3), in September. The Auditor-General considered the comments of the Agency and the report was ready to be presented to Parliament in February 1981 [Briefing Notes by B. Kimball].

(d) Bi-Lateral Overseas Aid Program

The audit was prompted by weaknesses in controls over program expenditures and the absence of review procedures which were revealed by a feasibility study.

The audit focussed upon:

- o conflicts of objectives
- o overwhelming concern for meeting spending targets

- o information to review the effectiveness of Australian aid
- o mechanisms and procedures to decide upon the selection of aid projects and the allocation of aid between these
- o management procedures to monitor and enhance the efficiency, effectiveness and value for money of aid projects.

The AAO first met with the Department of Foreign Affairs in September 1979, shortly after commencing its fieldwork. The report was ready for peer review in December 1980 and it was expected that a draft report would be made available to the Auditor-General in February with the final report to go before Parliament in August [Briefing Notes by M. Jacobs, Chief Executive Officer, Division E].

(e) Efficiency Audit of the Main Battle Tank

The audit was commenced in January 1980 to examine the management of the main battle tank with particular concern for subsequent capital equipment purchases necessary for the operation of the tanks. The audit effort was directed according to the significance of particular activities in the resource consumption of the management of the main battle tank capability and the importance of these expenditures to the success of the program. The operation of the main battle tank in the field would reflect the success of the management of personnel and their training, the supply of parts and other support. Fieldwork started in February 1980 and took until December to complete. It was expected that a report would be available for peer opinions in July and the first draft to the Auditor-General in September 1981. It was forecast that Parliament would receive the finished product in December 1981 [AAO, B. Thiedeman, Chief Executive Officer, Division E, Briefing Notes, 1981, p.10].

APPENDIX 6.2

JOHN JONES' CAREER AFTER LEAVING THE EAD

After 15 months with the accounting firm of Price Waterhouse Jones returned to the public-sector and was placed on the unattached list of the Senior Executive Service (Jones, 19.07.90; Australia Post, Evidence, p.406), a position one member of Parliament described as equivalent in the public service to "just one step away from the grave".[Bowen, HR debates, 17 September 1980, p.1397].

Soon after his return to the AAO on the 20 May 1985 Jones met with Auditor-General John Monaghan who had replaced Brigden during Jones' time with Price Waterhouse. At the meeting, which was also attended by Colin Bannerman, First Assistant Commissioner, SES Unit, Public Service Board and Doug Hill, the Deputy Auditor General who acted as secretary, Jones was informed that not only had the EAD been disbanded but that his Level 3 position had also been swallowed up in a 'structural reorganisation' of the Office which had been initiated by Brigden (Brigden had surrendered Jones' position to the PSB, something which was unheard of in the public service but which was necessary in Jones' case to close any legitimate avenues of return). Monaghan indicated that his discussions with the Department of Finance held little prospect of any further Level 3 positions becoming available to the Office in the near future. In the event that this was to change Monaghan "did not think he would be happy to appoint Mr. Jones", mainly because Jones had not exercised "effective management performance in achieving objectives". The Auditor-General suggested that in view of Jones' ambiguous situation in the Office, he would be advised to contact the SES to seek a position elsewhere in the public service or, more pointedly, to obtain a permanent position outside the public service with Price Waterhouse. The only possible alternative was to be demoted, although the Auditor-General did not think

that this would be acceptable to Jones [Minutes of the meeting of 20 June 1985]. In an earlier letter to the head of the Senior Executive Service (SES) [Monaghan had made it clear that "even if a vacancy existed I would not regard Mr. Jones as suitable for leadership of a division responsible for planning and management of general audits. ... (H)e is generally unsuited to audit work and lacks the managerial skills needed to plan and control work projects in a tight resource situation" [8 May 1985]. Jones objected strongly to these accusations made against him by Monaghan and requested that he be given the opportunity to vindicate himself [Jones to the Head of the SES, 23 May 1985].

Although Jones was given an opportunity to comment on his position, all attending the meeting knew that Jones' fate at the Office had been well and truly sealed before the meeting. It is inconceivable that Brigden had not consulted with Monaghan about his troublesome officer. His discussion at the 20 June meeting certainly indicated that Monaghan had made himself familiar with the events surrounding one of the most turbulent and testing times at the Office. Despite the inevitability of the result Jones again took the opportunity to rehearse the difficulties which he had faced during his time at the head of the EAD, if for no other reason than to have them again placed on the record and to confirm his conviction that what was about to happen to him was a punishment which was disproportionate to his responsibility and any problems with which he may have been associated.

Jones pointed to the staffing difficulties which he had to contend with not only at the commencement of EAD operation but which continued to plague him throughout his tenure with the EAD. He had started with mostly inexperienced and young staff which required him to take a more active role in staff training and in the development of audit methodology. Considerable delays in reporting audits arose from the Office's practice of transferring staff from the EAD to other divisions of the Office, leaving him to assimilate another new officer and apprise them of the work to date. He referred to the

largely novel nature of the audit tasks which were facing the EAD and the expectation which he and Steele Craik had that audit findings would have to be reported in a different, more expansive style. Contrary to the original note in the minutes of the meeting, an annotation by Jones established that he did not see his difficulties being related to the movement of audit into the upper reaches of the audit continuum, that is, into program effectiveness review. In an addendum to the minutes Jones wished it recorded that

he did not suggest that efficiency audits should include program effectiveness reviews. I have always supported the idea that such reviews are not within the purview of the Auditor-General for a number of reasons ... What I did put forward was the idea that efficiency cannot be addressed in isolation from the policy background. But that could not include reviewing policy itself [Minutes of meeting, 20 June 1985].

Jones also wanted to stress that Brigden should carry some of the responsibility for the deterioration of the relationship between them. He noted how Brigden announced changes in the reporting style for efficiency audits without consulting with Jones. Jones had particularly objected to these changes, and others, because he saw this as contravening the spirit if not the detail of the efficiency audit provisions in the Audit Act Amendments as understood by both himself and Steele Craik. With the benefit of hindsight he realised that, however strong his objections were to Brigden's management he might have taken his position too far.

He did accept that there were deficiencies in his management style, in particular selecting topics for audit which were too broad which precluded timely reporting. He also acknowledged that he should have taken a more active role in the day to day management of audits, insisting that Level 1 heads maintain closer contact with Class 7 officers in the field.

APPENDIX 6.3

THE FORM OF EFFICIENCY AUDIT REPORTS

In a 1982 paper the approach used by the EAD in its reporting of efficiency audits was compared with that of the UK, Canada, New Zealand and the United States. The reports had developed a common format which included:

- o an executive overview of about 1500 words
- o a report of about 15,000 words which covered the scope, focus and objectives of the audit; a description of the auditee and detailed descriptions of the major activities audited; a summary of conclusions and a appendices where relevant. These appendices would contain detailed descriptions and statistics, models of the evaluative framework, statistical information and analyses to support audit findings, any options for improvement and justifications for the costs and benefits stated in the report. The paper noted that there was no one accepted style of reporting but rather that each country had developed a style which best suited its peculiar circumstances [AAO, Auditor- General *Reporting of Efficiency and Cost Effectiveness: A Discussion Paper*, 1982].

The paper noted that Australian practice had been influenced by a number of considerations. Particularly relevant was Section 48F of the Audit Act which required the Auditor-General to justify any opinions he expressed in his reports. The defensive reactions of auditees to audit reports, especially before parliamentary committees, required the auditors to base their report on well documented findings which could be easily and clearly justified under examination. Clearly argued and authoritative reports should allow committees to carry out their deliberations and to arrive at their decisions without frequent recourse to the Office.

APPENDIX 6.4

THE EFFICIENCY AUDIT PROCESS

- Understand policy goals
- Examine instruments applied
- Solicit and infer objectives
- Analyse management structure
- Assess performance in the application of human, physical and financial resources
- Compare performance to: similar operations or procedures, via indices of performance; synthesise alternative operations or procedures
- Estimate possible savings and/or operational improvements
- Recommend: alternative management approaches; alternative operations or procedures
- Communicate: findings to Parliament; opportunities for policy and program review to the Department of the Prime Minister and Cabinet; opportunities for management review to the Public Service Board; opportunities for improved budgeting and financial control to the Department of Finance

[Jones J., *Efficiency Audits: The View from the Auditor General's Office*, March 1979].

APPENDIX 6.5

AUDITS UNDERTAKEN BY EFFICIENCY AUDIT DIVISION

1. STARTED PRIOR TO PROCLAMATION OF AMENDING LEGISLATION IN MARCH 1979

Note: Some reports were contained within the AUDITOR-GENERAL's annual report while others were separately tabled.

1.1 Australian National Railways -key areas of financial control	Supplementary report 1978-79
1.2 Department of Capital Territory -housing assistance program	Supplementary report
1.3 Department of Productivity -grants for industrial research	Supplementary report
1.4 Telecommunications Commission -metering and charging systems	AG report April 1980
1.5 Department of Administrative Services- property function	Tabled April 1980 Commenced August 1978

2. STARTED AFTER PROCLAMATION OF AMENDING LEGISLATION AND TABLED

2.1 Commonwealth Administration of Nursing Home Programs	Tabled February 1981 Commenced April 1979
2.2 Administration of Australia's Bi-lateral Overseas Aid Program by the Australian Development Assistance Bureau	Tabled October 1981 Commenced June 1979
2.3 The Collection of Excise Duties and Deferred Customs Duties by the Department of Business and Consumer Affairs	Tabled March 1982 Commenced June 1979
2.4 Administration of Public Hospitals by the Capital Territory health Commission	Tabled May 1983 Commenced September 1980
2.5 Management of the Main Battle Tank by the Department of Defence	AG report May 1983 Commenced April 1980
2.6 Special Youth Employment Training Program- Department of Employment and Industrial Relations	AG report October 1983 Commenced November 1981
2.7 The Installation and Maintenance of Airways Facilities by the Department of Aviation	Tabled may 1984 Commenced October 1981
2.8 Control of Prohibited	Tabled May 1984

Immigration by the Department of Immigration and Ethnic Affairs	Commenced April 1983
2.9 Administration of Widows Pensions and Supporting Parents Benefits by the Department of Social Security	Tabled May 1984 Commenced September 1981
2.10 Collection of Sales Tax by the Australian Taxation Office	Tabled May 1984 Commenced January 1982
2.11 Administration of the Disability and Service Pension Schemes by the Repatriation Commission and the Department of Veteran Affairs	Tabled may 1984 Commenced August 1980
2.12 Control over Manpower and Property by the Overseas Telecommunications Commission	AG report September 1984 Commenced September 1982
2.13 Administration of the Export Development Grants Act 1974 by the Export Development Grants Board	AG report September 1984 Commenced April 1982
2.14 Observation program of the Bureau of Meteorology	AG report October 1984 Commenced August 1982
3. NEVER REPORTED	
3.1 Counter services of Australia Post	

APPENDIX 6.6***CHRONOLOGY OF EFFICIENCY AUDITS
CONDUCTED BY THE EFFICIENCY AUDIT DIVISION*****Property Management of the Department of Administrative Services**

Fieldwork started: August 1978
Fieldwork completed: February 1979
Executive summary report sent to the Department: March 1979
Report sent to the Department under Section 48F(3): October 1979
Report tabled in Parliament: April 1980
Report of the Expenditure Committee: June 1981

Nursing Homes Programs of the Department of Health

Fieldwork started: May 1979
Issue papers sent to the Department: September 1979
Fieldwork completed: December 1979
Preliminary draft of report: March 1980
Revised draft sent to Department: June 1980
Report sent to Department under Section 48F(3): September 1980
Report tabled: February 1981
Report of the Expenditure Committee tabled: February 1982

Bilateral Overseas Aid of Australian Development Assistance Bureau

Fieldwork started: September 1979
Issue papers sent to Department: November 1979, May 1980, June 1980
Fieldwork completed: April 1980
Draft report sent to Department: October 1980
Report provided to Department under Section 48F(3): May 1981
Report tabled: October 1981
Report of the JCPA tabled: November 1982

Excise Collection of the Department of Business and Consumer Affairs

Fieldwork started: June 1979
Issue papers to the Department: September 1979 to February 1980
Fieldwork completed: December 1979
Draft report to Department : October 1980
Revised draft report to Department: June 1981
Report provided to Department under Section 48F(3): October 1981
Report tabled: March 1982

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