

University of Wollongong - Research Online

Thesis Collection

Title: The credibility of ANAO performance audit

Author: Margaret J Wade

Year: 2008

Repository DOI:

Copyright Warning

You may print or download ONE copy of this document for the purpose of your own research or study. The University does not authorise you to copy, communicate or otherwise make available electronically to any other person any copyright material contained on this site.

You are reminded of the following: This work is copyright. Apart from any use permitted under the Copyright Act 1968, no part of this work may be reproduced by any process, nor may any other exclusive right be exercised, without the permission of the author. Copyright owners are entitled to take legal action against persons who infringe their copyright. A reproduction of material that is protected by copyright may be a copyright infringement. A court may impose penalties and award damages in relation to offences and infringements relating to copyright material.

Higher penalties may apply, and higher damages may be awarded, for offences and infringements involving the conversion of material into digital or electronic form.

Unless otherwise indicated, the views expressed in this thesis are those of the author and do not necessarily represent the views of the University of Wollongong.

Research Online is the open access repository for the University of Wollongong. For further information contact the UOW Library: research-pubs@uow.edu.au

2008

The credibility of ANAO performance audit

Margaret J. Wade
University of Wollongong

Follow this and additional works at: <https://ro.uow.edu.au/theses>

University of Wollongong

Copyright Warning

You may print or download ONE copy of this document for the purpose of your own research or study. The University does not authorise you to copy, communicate or otherwise make available electronically to any other person any copyright material contained on this site.

You are reminded of the following: This work is copyright. Apart from any use permitted under the Copyright Act 1968, no part of this work may be reproduced by any process, nor may any other exclusive right be exercised, without the permission of the author. Copyright owners are entitled to take legal action against persons who infringe their copyright. A reproduction of material that is protected by copyright may be a copyright infringement. A court may impose penalties and award damages in relation to offences and infringements relating to copyright material.

Higher penalties may apply, and higher damages may be awarded, for offences and infringements involving the conversion of material into digital or electronic form.

Unless otherwise indicated, the views expressed in this thesis are those of the author and do not necessarily represent the views of the University of Wollongong.

Recommended Citation

Wade, Margaret J., The credibility of ANAO performance audit, Doctor of Philosophy thesis, School of Accounting and Finance, University of Wollongong, 2008. <https://ro.uow.edu.au/theses/1913>

NOTE

This online version of the thesis may have different page formatting and pagination from the paper copy held in the University of Wollongong Library.

UNIVERSITY OF WOLLONGONG

COPYRIGHT WARNING

You may print or download ONE copy of this document for the purpose of your own research or study. The University does not authorise you to copy, communicate or otherwise make available electronically to any other person any copyright material contained on this site. You are reminded of the following:

Copyright owners are entitled to take legal action against persons who infringe their copyright. A reproduction of material that is protected by copyright may be a copyright infringement. A court may impose penalties and award damages in relation to offences and infringements relating to copyright material. Higher penalties may apply, and higher damages may be awarded, for offences and infringements involving the conversion of material into digital or electronic form.

THE CREDIBILITY OF ANAO PERFORMANCE AUDIT

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

DOCTOR OF PHILOSOPHY
from
UNIVERSITY OF WOLLONGONG

by
Margaret J. Wade, BA (Accounting), M. Ec.
School of Accounting and Finance

VOLUME I

August 2008

THESIS CERTIFICATION

CERTIFICATION

I, Margaret Joy Wade, declare that this thesis, submitted in fulfilment of the requirements for the award of Doctor of Philosophy in the Department of Accounting, University of Wollongong, is wholly my own work unless otherwise referenced or acknowledged. The document has not been submitted for qualifications at any other academic institution.

Margaret J. Wade

12 August 2008

TABLE OF CONTENTS

THESIS CERTIFICATION.....	i
TABLE OF CONTENTS.....	ii
LIST OF FIGURES.....	vi
LIST OF TABLES.....	vii
ACRONYMS AND ABBREVIATIONS	viii
ABSTRACT.....	x
ACKNOWLEDGEMENTS.....	xi
CHAPTER 1 INTRODUCTION TO THE STUDY	1
1.1 The thesis: the credibility of ANAO performance audit	1
1.2 The study's central theme: definitions and explanations.....	7
1.2.1 Performance audit	7
1.2.2 The ANAO	10
1.2.3 Audit credibility	14
1.3 Locating this study within the performance audit literature	18
1.3.1 The literature on ANAO performance audit.....	18
1.3.2 Qualitative studies of performance audit practice.....	21
1.3.3 Studies that question the role and practice of performance audit	27
1.3.4 Concluding remarks	32
1.4 The plan of the thesis	33
CHAPTER 2 THEORETICAL AND METHODOLOGICAL POSITIONS.....	39
2.1 Introduction	39
2.2 Theoretical and methodological positions	42
2.2.1 Burrell and Morgan's bipolar model of social theory	43
2.2.2 Laughlin's dimensions of theoretical and methodological choice.....	49
2.2.3 The study's theoretical and methodological positions	54
2.3 Associations and antecedents	58
2.3.1 Ethnography	63
2.3.2 Grounded Theory	68
2.3.3 Middle-range thinking.....	74
2.4 Implementing the approach: the study's empirical research design.....	86

2.4.1	Gaining access to participants.....	87
2.4.2	In-depth interviews.....	89
2.4.3	Participant observation.....	93
2.4.4	Data analysis.....	101
2.5	Summary and conclusion	102
 CHAPTER 3 THE THEORETICAL LENS: INSIGHTS FROM THE NEW INSTITUTIONALISM		
104		
3.1	Introduction	104
3.2	An institutional perspective on organisations.....	109
3.2.1	The institution.....	109
3.2.2	The institutional environment.....	112
3.2.3	The organisational field	117
3.3	Honing the lens	121
3.3.1	Legitimacy.....	121
3.3.2	Rationalised myths	126
3.3.3	Isomorphism.....	129
3.3.4	Institutionalisation.....	133
3.3.5	Strategic response.....	136
3.4	Summary and conclusion	143
 CHAPTER 4 THE INSTITUTIONAL ENVIRONMENT OF ANAO PERFORMANCE AUDIT		
145		
4.1	Introduction	145
4.2	Australia's system of responsible government	149
4.3	The public accountability framework.....	155
4.3.1	The notion of public accountability.....	155
4.3.2	The dimensions of public accountability.....	159
4.3.3	Public accountability, the APS and APS reform.....	163
4.4	State audit in Australia	173
4.4.1	Westminster origins	174
4.4.2	Statutory authority.....	176
4.4.3	Contemporary role	183
4.4.4	Relationship with the PAC.....	185
4.4.4.1	Episode 1: 1913-1932	189
4.4.4.2	Episode 2: 1951-1978	193
4.4.4.3	Episode 3: 1979-1997	194
4.4.4.4	Episode 4: 1998 +	198
4.5	Summary and conclusion	200
 CHAPTER 5 INSTITUTIONALISATION AND THE ACHIEVEMENT OF INSTITUTIONAL CREDIBILITY		
203		

5.1	Introduction	203
5.2	The search for a label.....	207
5.3	The institutionalisation of ANAO performance audit.....	211
5.3.1	Prior research revisited.....	211
5.3.2	Encoding the script.....	215
5.3.2.1	Creating the statutory mandate	215
5.3.2.2	Designing the audit approach	224
5.3.3	Enacting the script.....	229
5.3.3.1	Craik's General Audit Manual.....	230
5.3.3.2	The parliament's feedback on EAD audits.....	234
5.3.4	Revising and replicating the script.....	246
5.3.4.1	The Brigden years (1981-5).....	246
5.3.4.2	The Monaghan years (1985-7).....	253
5.3.4.3	The Taylor years (1988-95).....	265
5.3.5	An objectified and externalised audit institution.....	274
5.4	Summary and conclusion	284
CHAPTER 6 CREDIBILITY AT THE LEVEL OF MICRO-PRACTICE: RATIONALISED MYTHS AND TALES FROM THE FIELD		286
6.1	Introduction	286
6.2	The data coding process and its resulting themes	290
6.3	Reflections on the rationalised myth of auditor independence.....	294
6.3.1	The importance of independence.....	297
6.3.2	Obstacles to auditor independence	300
6.3.3	Alternative conceptions of independence.....	314
6.4	Reflections on the rationalised myth of technical competence	318
6.4.1	The performance auditor's toolkit	321
6.4.2	Technical challenges	334
6.5	Reflections on the rationalised myth of audit usefulness.....	348
6.5.1	The discourse on adding value.....	349
6.6	Summary and conclusion	361
CHAPTER 7 DEALING WITH PERFORMANCE AUDIT: AUDITOR- AUDITEE RELATIONS AND THE IMPACT OF JUDGE BIAS ON PERFORMANCE AUDIT CREDIBILITY		365
7.1	Introduction	365
7.2	From fear to favour: auditee responses to the ANAO	371
7.3	Sympathetic sceptics: auditors' responses to auditees.....	381
7.4	Interpreting responses and biases through Oliver's lens	393

7.5	Summary and conclusion	402
 CHAPTER 8 THE CREDIBILITY OF ANAO PERFORMANCE AUDIT		
8.1	Introduction	404
8.2	Institutional credibility	407
8.3	Micro-level credibility	410
8.3.1	Auditor independence	410
8.3.2	Technical competence.....	412
8.3.3	Audit usefulness	414
8.3.4	Responses and biases	416
8.4	Final remarks.....	418
 BIBLIOGRAPHY.....		1
 APPENDIX A TABLE OF INTERVIEW PARTICIPANTS		455
 APPENDIX B SCHEDULE OF OBSERVATIONS.....		457
 APPENDIX C COMMUNICATING WITH PARTICIPANTS.....		459
 APPENDIX D HAWKE LABOR GOVERNMENT REFORMS		463
 APPENDIX E MONITORING THE ANAO’S RESOURCES.....		465
 APPENDIX F THE PAC’S STATUTORY DUTIES		468
 APPENDIX G EXAMPLES OF RECENT PAC REPORTS		469
 APPENDIX H THE EAD’S AUDITS.....		470
 APPENDIX I REPORT 296 RECOMMENDATIONS		471
 APPENDIX J NEGATIVE COMMITTEE FEEDBACK.....		478
 APPENDIX K POSITIVE COMMITTEE FEEDBACK		481

LIST OF FIGURES

Number	Page
Figure 1.1: The themes of Chapter 1	6
Figure 1.2: The role of the performance auditor	9
Figure 1.3: The ANAO's Outcome-Output Framework	12
Figure 1.4: The credibility of ANAO performance audit.....	17
Figure 1.5: The plan of the thesis.....	38
Figure 2.1: The themes of Chapter 2	41
Figure 2.2: Burrell and Morgan's subjective-objective dimension.....	44
Figure 2.3: Burrell and Morgan's four sociological paradigms	46
Figure 2.4: Laughlin's dimensions on the choice process for empirical research.....	51
Figure 2.5: Relationship between Burrell and Morgan's bipolar model and	52
Figure 2.6: Dimensions of choice	58
Figure 2.7: Laughlin's characteristics of alternative schools of thought.....	61
Figure 2.8: Participation and observation continuum	94
Figure 3.1: The themes of Chapter 3	108
Figure 3.2: Hierarchy of institutional influence	116
Figure 3.3: The organisational field of a UK agency facing competitive tendering	118
Figure 3.4: The organisational field of ANAO performance audit.....	120
Figure 3.5: Barley and Tolbert's sequential model of institutionalisation.....	134
Figure 4.1: The themes of Chapter 4	148
Figure 4.2: A media perspective on ministerial responsibility	154
Figure 4.3: Stewart's ladder of accountability.....	160
Figure 4.4: Framework of APS responsibility and accountability.....	171
Figure 5.1: The themes of Chapter 5	206
Figure 5.2: The institutionalisation of ANAO performance audit.....	214
Figure 5.3: The extent and limits of the Auditor-General's mandate	220
Figure 5.4: The review and audit continuum.....	227
Figure 5.5: Auditee acceptance of performance audit recommendations.....	279
Figure 6.1: The themes of Chapter 6	289
Figure 7.1: The themes of Chapter 7	370
Figure 8.1: The themes of Chapter 8	406

LIST OF TABLES

Number	Page
Table 1.1: ANAO Better Practice Guides: 2003 to 2008	13
Table 2.1: Burrell and Morgan's regulation-radical change dimension	45
Table 2.2: Laughlin's key characteristics of the dominant schools of thought	53
Table 2.3: Interview participants	91
Table 3.1: Oliver's typology of strategic responses	139
Table 4.1: Flinders' layers of accountability	155
Table 4.2: The auditors-general of interest to this study	184
Table 5.1: The efficiency audit process	233
Table 5.2: The parliamentary inquiries explored in this section	236
Table 6.1: Categories of responses: the results of open and axial coding	291
Table 7.1: Oliver's typology of strategic responses	395

ACRONYMS AND ABBREVIATIONS

AAO	Australian Audit Office, the name by which the ANAO was known for much of the 1980s.
ACT	Australian Capital Territory. Canberra, which is the capital city of the Commonwealth of Australia and the seat of Australia's federal government, is located in the ACT.
AGO	Auditor-General's Office, one of the names by which the ANAO was known until the early 1980s.
AGPS	Australian Government Publishing Service.
ANAO	Australian National Audit Office, the name by which the ANAO has been known since 1989. This is the term used throughout this thesis to refer to the office that supports the work of the Commonwealth Auditor-General, irrespective of the period in its history under consideration.
APS	Australian Public Service
APS 3, APS 5, APS 6	APS position designations. For the ANAO, these are broadly equivalent (respectively) to trainee, junior and senior auditor positions in private sector audit firms.
ASOSAI	The Asian Organisation of Supreme Audit Institutions.
EAD	Efficiency Audit Division, an administrative division of the ANAO from 1978 to 1984.
EL1, EL2	APS position designations. For the ANAO, these are broadly equivalent (respectively) to team leader and audit manager positions in private sector audit firms.
Finance Minister	The minister responsible for the government department that deals with finance and related matters. Established in 1976, this department has been known as the Department of Finance, the Department of Finance and Administration and, since 2007, the Department of Finance and Deregulation.
FMI Program	Financial Management Improvement Program, a program established by the Hawke Labor Government to develop public sector reform initiatives.

GAAP	Generally Accepted Accounting Principles.
GAO	The (US) Government Accountability Office (formerly the Government Accounting Office).
House	House of Representatives.
INTOSAI	The International Organisation of Supreme Audit Institutions.
JCPA	Joint Committee of Public Accounts, the name by which the PAC was known from 1952 to 1997.
JCPAA	Joint Committee of Public Accounts and Audit, the name by which the PAC has been known since 1997.
MAB-MIAC	The Management Improvement Advisory Committee of the Management Advisory Board.
MRI audit	Refers to an audit of magnetic resonance imaging services, reported in 2002.
NAO	The (UK) National Audit Office.
NPM	New Public Management.
OASITO	Office of Asset Sales and IT Outsourcing.
PAC	Public Accounts Committee, a term used generically throughout this study to refer to the Joint Committee of Public Accounts (JCPA) and the Joint Committee of Public Accounts and Audit (JCPAA).
RCAGA	The Royal Commission on Australian Government Administration.
SAI	Supreme audit institution.
SEC	The (US) Securities and Exchange Commission.
SES	Senior Executive Service.
VFM audit	Value for money audit.
WPOEA	Working Party of Officials on Efficiency Audit.

ABSTRACT

With more than thirty years' experience in performance audit, the Australian National Audit Office (ANAO) is recognised, worldwide, as a leading exponent of this relatively new state audit practice. Using archival and empirical sources, this thesis examines the credibility of the ANAO's performance audit function at both a macro, institutional level and at the level of micro practice. Credibility, as defined in this thesis, is a relative construct that consists of three elements: auditor independence, technical competence and audit usefulness. The thesis demonstrates that while ANAO performance audit possesses a high degree of credibility at the macro, institutional level, its micro-level credibility remains problematic. At this level there are numerous challenges to its credibility, including the mobility of employment opportunity between the ANAO and its auditee agencies, the ability of auditee staff to delay, manipulate and otherwise frustrate the evidence-gathering process, and varying perceptions of its usefulness. Also challenging for performance audit credibility is the lack of a clearly-defined knowledge base and professional identity for performance audit. This creates problems for staff recruitment, training and development, and undermines the capacity of the ANAO's performance auditors to withstand external pressure. The major conclusion of this thesis is that, if ANAO performance audit is indeed a form of auditing and not a misnomer as Barzelay (1997) suggests, then there are aspects of its credibility, as assessed against the criteria of auditor independence, technical competence and audit usefulness, that require attention.

ACKNOWLEDGEMENTS

I would like to thank my supervisor, Warwick Funnell, Professor of Accounting at Kent Business School, University of Kent, for his wisdom, guidance and understanding. I would also like to thank Dr Anne Abraham of the School of Accounting and Finance at the University of Wollongong, who provided an essential point of contact with the University during Professor Funnell's absence from Australia.

My thanks, also, to the former Commonwealth Auditor-General, Mr Pat Barrett AO, and the head of an undisclosed Commonwealth agency for their consent to conduct the empirical aspects of this research in their organisations. Thank you, too, to the many ANAO and agency staff, consultants and members of the Joint Committee of Public Accounts and Audit who participated in this study as well as the University of Canberra for the research grant that facilitated the empirical research.

My deepest gratitude is reserved, however, for my husband and best friend, David, without whose support none of this would have been possible, and my mother, Nell Allen, who always believed in me.