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# The credibility of ANAO performance audit

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University of Wollongong

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# **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

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## 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**

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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.

# CHAPTER 1

## INTRODUCTION TO THE STUDY

*The best way to become acquainted with a subject is to write a book about it (Benjamin, Earl of Beaconsfield, Disraeli, 1804 - 1881).*

### **1.1 The thesis: the credibility of ANAO performance audit**

Since the latter decades of the twentieth century, state audit institutions worldwide have experimented with extended forms of audit, known collectively as performance audit. The last couple of decades have also seen an emerging interest in the literature in this modern state audit phenomenon. This thesis contributes to this literature by examining the credibility of performance audit as practised in a specific state audit institution, namely the Australian National Audit Office (ANAO), where performance audit has been a feature of the state audit landscape for some thirty years. This is not to extol its virtues nor expose its faults, nor even to “celebrate” its story (Gendron *et al*, 2007, p. 102). Rather, the intention of focusing on a mature site like the ANAO is to allow a matter of



importance, which is the credibility of this relatively new state audit function, to be studied in depth.

In this thesis, I explore the credibility of ANAO performance audit at two levels: at a macro, institutional level and at the level of micro-practice. At the macro level, my analysis of historical events suggests that ANAO performance audit achieved institutional credibility during the early 1990s and that it has maintained its position as a credible state audit function ever since, despite the occasional high-profile dispute with executive government over controversial audit findings. At the micro level, however, the study's empirical findings reveal that the credibility of ANAO performance audit is much more problematic. This thesis does not argue that ANAO performance audit is without credibility at this level but it does identify problems of auditor independence, technical competence and perceived audit usefulness that limit its credibility.

The Australian Parliament's enactment of the *Auditor-General Act 1997*, and especially its performance audit provisions, achieved two milestones of significance for the central theme of this thesis. First, it reaffirmed the parliament's faith in performance audit as an instrument of parliamentary scrutiny and control and, second, it signalled its confidence in the fitness of the Commonwealth Auditor-General (the Auditor-General) and the ANAO to take charge of it. Back in 1979, when the Australian Parliament first gave the Auditor-General a mandate for performance audit, it had little understanding of the function and few grounds for believing that the Auditor-General's staff would be able to handle it. By 1997, however, when Australia's new audit legislation was enacted, the parliament had had nearly two decades of experience in dealing with performance audit reports and was thus in a position to make an informed assessment of the ANAO's capabilities. Its willingness to support the performance audit provisions of the new legislation is arguably

proof of its belief in the credibility of ANAO performance audit, notwithstanding the function's troublesome beginnings (see, for example, Hamburger, 1989; Guthrie, 1990; Parker and Guthrie, 1991; Funnell, 1994a and 1998; Guthrie and Parker, 1999; and Chapter 5 of this thesis). The combination of factors that led the Australian Parliament and other institutional stakeholders to regard ANAO performance audit as credible is one of two research questions that inform this thesis. The other is bound up with how ANAO performance audit is perceived by those who deal with it on an everyday basis and whether they, too, regard it as credible.

Consistent with these two research questions, this thesis has a dual aim. The first is to explore the transformation of ANAO performance audit from an ambitious idea to a credible function of state audit and a taken-for-granted feature of Australia's modern public accountability framework. Towards the end of the twentieth century, Australia's Westminster-style system of public accountability, of which state audit forms an integral part, came to be associated with a much wider range of accountabilities than its traditional base of financial regularity and compliance, including accountabilities for the economic, efficient and effective management of public resources. It was this emerging re-conceptualisation of public accountability that, in 1976, persuaded the Royal Commission on Australian Government Administration (RCAGA) to recommend the addition of performance audit, then known as efficiency audit, to the state audit mandate, a recommendation that was accepted and implemented by the government of the day. Also recommended to, but not implemented by, that government was a set of related reforms designed to enhance the efficiency and accountability of the Australian Public Service (APS). The troublesome beginnings of ANAO performance audit, noted earlier, are at least partly attributable to its implementation in advance of the public sector reforms that made sense of it and well before the new accountabilities were absorbed into the culture

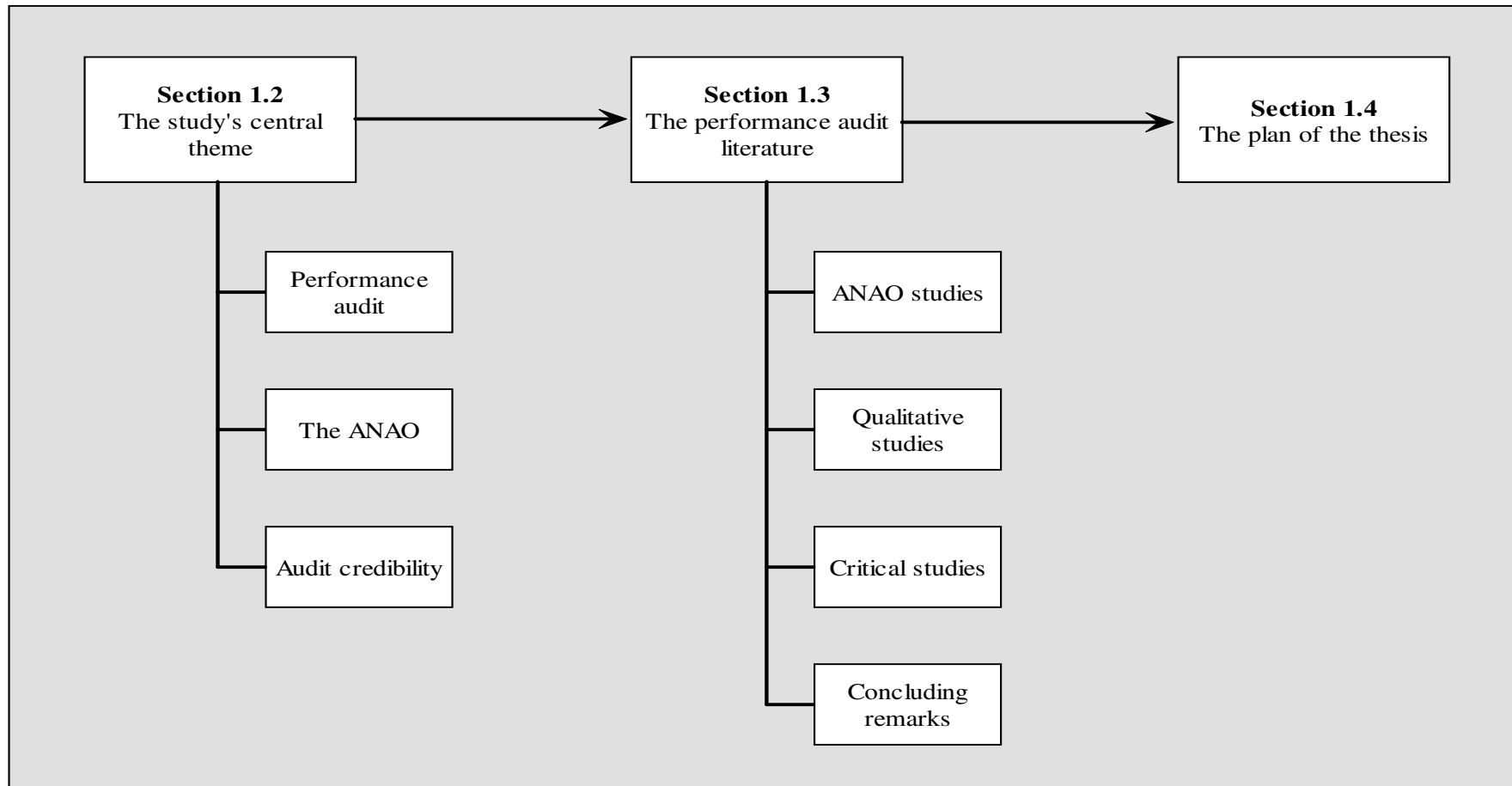
of the APS. It took nearly a decade, in fact, before serious consideration was given to APS reform and at least half a decade more before the processes of reform began to infiltrate APS values and practices. By the mid-1990s, however, ideas such as “managing for results” and “key performance indicators” had become part of the everyday language of the APS. This thesis will show that the APS’ adoption of a performance-oriented culture provided the long-awaited rationale for ANAO performance audit, contributing at least in part to its successful transformation into a credible state audit function.

Another reason for exploring the transformation of ANAO performance audit into a credible state audit function is to provide an historical context for the second aim of this thesis, which is to establish the degree to which the function is regarded as credible by those most intimately involved in the process, whether as auditor, auditee or member of the Joint Committee of Public Accounts and Audit (hereafter the Public Accounts Committee or PAC). In contrast to the macro, institutional-level focus of the earlier analysis, this part of the thesis is about stakeholder perceptions of, and interactions with, ANAO performance audit at the level of micro-practice. In other words, it is focused on what Power (2003, p. 380; see also Humphrey, 2008, p. 171) describes as the complex “back stage” of practice. For this purpose, the study draws on original empirical data, which I gathered by interview and observation in the field. My analysis of this data suggests that two streams of ideas need to be taken into account in addressing the study’s second research aim. The first stream deals with the conflicting views about ANAO performance audit expressed by the study’s stakeholder-participants, with some highly supportive of the manner in which the ANAO undertakes its performance audit role and others intensely critical of it. Their responses suggest that there are issues of auditor independence, technical competence and audit usefulness associated with the everyday practice of ANAO performance audit that undermine its credibility. The second stream of

ideas is bound up with the incentives and biases that influenced the participants' responses to ANAO performance audit and to one another. Rather than being indicators of diminished audit credibility, the participants' conflicting views may simply have been symptomatic of the inevitable tensions that arise between auditor and auditee, as auditors seek to achieve audit objectives and auditees endeavour to limit the impact of the audit on themselves, their agencies and their ministers. The empirical chapters of this thesis explore both streams of ideas.

The objectives of Chapter 1 are twofold: first, to establish the study's central theme and position it within its research field and, second, to provide an outline of its structure and approach. Accordingly, the remainder of this chapter is organised as follows (see Figure 1.1). First, it defines and explains the three constructs (performance audit, the ANAO and audit credibility) that comprise the study's central theme. The intention in so doing is to identify the context and limits of the thesis. Next, the chapter reviews the literature on performance audit and highlights the study's place in that literature. Then, to conclude, the chapter outlines the plan of the thesis, including the purpose and themes of its seven remaining chapters.

**Figure 1.1: The themes of Chapter 1**



## 1.2 The study's central theme: definitions and explanations

### 1.2.1 Performance audit

Performance audit<sup>1</sup> is an evolving social construct of relatively recent origin that is now accepted, worldwide, as a normal and expected function of state audit. The extent of its acceptance is evident, for example, in the numerous contributions to the International Journal of Government Auditing<sup>2</sup> that describe the experiences of individual “supreme audit institutions”<sup>3</sup> with performance and similar forms of extended audit activity<sup>4</sup>. Its rise to prominence during the latter decades of the twentieth century occurred more or less in parallel with the emergence of managerialist models of public sector governance (Kettl, 2000), with their emphasis on leaner government, better service delivery, and more efficient and effective management of government programs. The term *new public management* or *NPM* (see, for example, Hood, 1991 and 1995; Aucoin, 1995; Ferlie *et al*,

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<sup>1</sup> In some state audit jurisdictions, for example, the (UK) National Audit Office and the (Hong Kong) Audit Commission, performance audit is referred to as value for money (VFM) audit. This was also the term formerly used by the Office of the Auditor-General of Canada. Other names for the extended audit function now typically referred to as performance audit include efficiency audit, effectiveness audit, project audit, operational audit and comprehensive audit. The various labels that have been applied to Australia's performance audit function are considered in Chapter 5.

<sup>2</sup> The International Journal of Government Auditing, which is published by the (U.S.) Government Accountability Office, is the official organ of the International Organisation of Supreme Audit Institutions (INTOSAI) and is dedicated to the advancement of government auditing procedures and techniques. For further information, see the journal's website at <http://www.intosaijournal.org/aboutus.html>.

<sup>3</sup> INTOSAI defines a supreme audit institution as “a public body of a state or supranational organisation which, however designated, constituted or organised, exercises, by virtue of law or other formal action of the state or the supranational organisation, the highest public auditing function of that state or supranational organisation in an independent manner, with or without jurisdictional competence” (INTOSAI, 2006).

<sup>4</sup> Examples of papers on extended forms of audit published in the International Journal of Government Auditing include: Wesberry (1974) on operational audit in Latin America; Scantlebury (1974) on the broadening scope of government auditing in the USA; Berggren (1978) on effectiveness audit in Sweden; Meyers and Boisclair (1979) on comprehensive audit in Canada; Kai (1984) on efficiency audit in Japan; Kulasingham (1986) and Yeo (1989) on VFM audit in Malaysia and Singapore; and Kahn (1986), Zavelberg (1990) and Kitindi (1992) on performance audit, respectively, in Pakistan, Germany and Tanzania.

1996; Leeuw, 1996; Funnell and Cooper, 1998; Lapsley, 1999; Johnston, 2000) is also used to refer to managerialist styles of public sector administration.

While performance audit is generally understood to deal with the economy, efficiency and effectiveness aspects of public activities<sup>5</sup>, it is not a standardised product (Pollitt *et al*, 1999, pp. 12 and 194; see also INTOSAI, 2004, p. 11) but rather a malleable construct (Guthrie and Parker, 1999; see also Jacobs, 1998) that is moulded to suit the individual priorities (INTOSAI, 1998) and self-images (Pollitt *et al*, 1999, pp. 105-8) of state auditors in different social and political settings. For example, Pollitt *et al* argue that in France state auditors see themselves, at least in part, as magistrates, making judgements about good management practice; in Sweden, as management consultants, providing assistance and advice; in Finland, as researchers, creating new knowledge and information; in the UK, as public accountants, reporting to the parliament on the wise use of public monies; and in the Netherlands, as public accountants also but with a leaning towards social research. The model reproduced in Figure 1.2 illustrates the diversity of these perceived roles. It is important to note that there is not universal agreement in the literature about the location of performance audit within the auditing domain. Barzelay (1997, p. 241), for example, argues that performance audit is not really auditing at all but a form of evaluation. This is based on the idea that, whereas auditing is a form of verification while performance audit entails making or reviewing instrumental judgements about, for example, the optimality of production processes and program designs. Barzelay's argument is refuted by Pollitt *et al* (1999, pp. 13-4), however, firstly because traditional forms of audit are also judgemental activities and, secondly, because

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<sup>5</sup> While it is recognised that internal auditors also conduct performance audits (see, for example, Raaum and Morgan, 2001) and that there is a related literature on private sector management audit (for example, Innes, 1990; Burrowes and Persson, 2000), this study is focused exclusively on the notion of performance audit as an external state audit function.

notions of compliance in terms of conformance with standards of good practice play an important role in performance audits. Nevertheless, they concede that performance audit can take different forms.

**Figure 1.2: The role of the performance auditor**

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(Pollitt *et al*, 1999, p. 106)

That performance audit can assume different forms is also evident in the cross-cultural comparative studies of Glynn (1985a and 1985b), Barzelay (1997) and Pollitt (2003a), illustrating the jurisdictional variations that exist in its role, scope and methodologies. Pollitt *et al* (1999, p. 108) stress, however, that no state audit institution operates purely as magistrate, consultant, researcher or public accountant but rather some combination thereof, consistent with the institution's legal and cultural circumstances. With Australia's political system modelled to a large extent on the UK (Westminster) system of responsible government (see Chapter 4), it is tempting to assume that ANAO performance



auditors perceive themselves, like their UK counterparts, as located in the top right-hand quadrant of Pollitt *et al*'s model. Later chapters of this study will show, however, that this is not strictly the case, with some ANAO staff seeing themselves more as analysts and researchers than accountants. Furthermore, while public accountability is certainly a significant ANAO objective, many of its auditors also emphasise the importance of adding value to public management by assisting them to improve their performance, thereby revealing a hint of the management consultant in their self-image. Indeed, Auditor-General Barrett (1995-2005) argued that adding value to public sector performance was the ANAO's overarching aim (Auditor-General, 2004, p. 3), a view with which the visionary Auditor-General, Don Steele Craik (1973-81), might well have agreed but not his more narrow-minded successor, Keith Brigden (1981-5) (see Chapter 5). Apparently even within jurisdictions, there can be differences of opinion regarding the performance auditor's role.

### **1.2.2 The ANAO**

Unlike the cross-cultural comparative studies noted in the previous section, this study is about the practice of performance audit in a specific jurisdiction (the Commonwealth of Australia) and a specific state audit agency (the ANAO). The ANAO is a statutory body of the Australian Parliament, established under Part 6 of the *Auditor-General Act 1997* to assist the Auditor-General with his/her statutory responsibilities. These include auditing the financial statements of government agencies<sup>6</sup> (Part 4, Division 1) and, with the

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<sup>6</sup> Throughout this study, the term "agency" is used to refer to any department or agency that falls within the meaning of the term given in Section 5 of the *Financial Management and Accountability Act 1997*. This uses the term *agency* to refer to departments of state (for example, the Department of Defence), departments of Parliament (for example, the Department of the Parliamentary Library) and prescribed agencies (for example, the Defence Materiel Organisation).

exception of government business enterprises<sup>7</sup>, conducting performance audits at the Auditor-General's discretion in those agencies (Part 4, Division 2). The Auditor-General may also audit the performance aspects of government business enterprises but only at the request of the minister responsible for that enterprise, the Minister for Finance and Deregulation (the Finance Minister) or the PAC.

For most of the twentieth century, the Auditor-General and his staff were subject to the *Audit Act 1901*, one of Australia's oldest pieces of legislation. Under Section 11 of that Act, the Auditor-General was empowered to appoint persons to assist with his/her duties. While these persons were recognised for administrative purposes as members of the Auditor-General's Office (AGO), the office itself had no standing at law until 1979, when the Act was amended to give it official recognition. During the early 1980s, the (then) Auditor-General, Keith Brigden, began to refer to the office as the Australian Audit Office (AAO) and in 1988 the Act was amended to reflect its new name. Then, in 1989, the PAC (Australia, JCPA, 1989, p. 237) recommended that its title be changed to the Australian National Audit Office, by which it is still known today, and the *Audit Act 1901* was amended once again. That the ANAO has had different names during its lifetime, however, is of little interest to the central theme of this study. To avoid confusion, therefore, the acronym, *ANAO*, is used throughout this thesis to refer to the office that supports the work of the Auditor-General, irrespective of the period in its history that is under consideration.

The ANAO reports its performance to the parliament using a budgetary and reporting mechanism known as the Outcome-Output Framework, against which its auditee agencies

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<sup>7</sup> A government business enterprise is an entity owned or part-owned by the government that is established by regulation under the *Commonwealth Authorities and Companies Act 1997* as a government business entity. Examples of government business entities include Australia Post, Rail Australia and Medibank Private.

have been required to report since the late 1990s<sup>8</sup>. As an independent agency, the ANAO is not obliged to report against the Framework but does so by choice, in line with the reporting requirements of those agencies. The Framework emphasises the goods and services (that is, the outputs) produced by the agency and the outcomes that they are intended to achieve. The ANAO's Framework (see Figure 1.3) features two intended outcomes. Outcome 1 is improvement in public administration through independent assurance of agency performance. Outcome 2 is independent assurance of APS financial reporting, administration, control and accountability. Supporting these outcomes are three output groups: performance audit services, information support services and assurance audit services. The ANAO's performance audit reports, which contribute to Outcome 1, are the primary focus of this study.

**Figure 1.3: The ANAO's Outcome-Output Framework**

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(Auditor-General, 2007, p. 15)

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<sup>8</sup> For further information on the Outcome-Output Framework, see the Commonwealth Department of Finance and Regulation's website (<http://www.finance.gov.au>).

Notwithstanding its primary focus on performance audit services, however, the study is also interested in the Better Practice Guides that are a feature of Output Group 2. Under Section 23 of the *Auditor-General Act 1997*, auditors-general are empowered to provide information and advice on matters arising from their audit responsibilities, including performance audits, and one way they achieve this is through the production of these guides. A review of Better Practice Guides published in the five years since April 2003 (see Table 1.1), suggests that they are used variously to assist agencies with their reporting responsibilities, address systemic weaknesses in public administration identified during the course of audits, and provide advice on a broad range of new public management policies, systems and processes, including contract management, fraud control, policy implementation and human resource management.

**Table 1.1: ANAO Better Practice Guides: 2003 to 2008**

Date	Title
April 2003	Building capability ...
April 2003	Managing parliamentary workflow
May 2003	Goods and service tax (GST) administration
August 2003	Public sector governance
December 2003	Management of Scientific Research and Development Projects ...
April 2004	Better practice in annual performance reporting
June 2004	Security and control update for SAP R/3
August 2004	Fraud control in Australian government agencies
February 2005	Public sector audit committees
January 2006	User-friendly form: key principles and practices
February 2006	Administration of fringe benefits tax
April 2006	Preparation of financial statements by public sector entities
August 2006	Legal services arrangements in Australian government agencies
October 2006	Implementation of programme and policy initiatives
February 2007	Developing and managing contracts
March 2007	Administering regulation
August 2007	Probity in Australian government procurement

Date	Title
September 2007	Public sector internal audit
May 2008	Agency management of parliamentary workflow

The study's empirical evidence (see Chapter 6) indicates that the ANAO's Better Practice Guides can have both positive and negative implications for ANAO performance audit credibility: positive because they enhance the perceived usefulness of performance audit but negative because of their potential to impair auditor independence by, for example, influencing the design of systems and processes that are subsequently subjected to audit and/or making the state auditor appear complicit with executive government. The notion of audit credibility, which is the third and final construct of the study's central theme, is considered next.

### 1.2.3 Audit credibility

The notion of audit credibility adopted in this thesis is informed by Birnbaum and Stegner's (1979) theory of source credibility. Birnbaum and Stegner argue that the credibility or believability of information can be decomposed into three elements. The first element, source bias, refers to the perceived likelihood that a message is biased in the sender's favour. In other words, it is focused on the sender's perceived willingness to provide reliable information. For auditors, the idea of source bias or, rather, the lack thereof is captured in the fundamental audit values of independence, objectivity and fairness. The second element, source expertise, is bound up with matters of training, experience and ability and hence refers to the sender's perceived *competence* to provide reliable information. Competence is also a fundamental audit value. The third element is judge bias. Whereas the notions of source bias and competence are about the message sender, judge bias is about the message recipient. It is intended to convey the idea that a recipient's personal prejudices and circumstances will influence his/her perceptions of the

sender and his/her message, including the recipient's interpretation of its meaning and his/her willingness to rely upon it. They suggest, for example, that a recipient's political leanings may lead a (U.S.) Republican to perceive a message sent by a Democrat as less reliable or valuable than the same message sent by a fellow Republican. In the Australian government context, arguably members of the government and opposition parties might also respond differently to the same message contained in an Auditor-General's report.

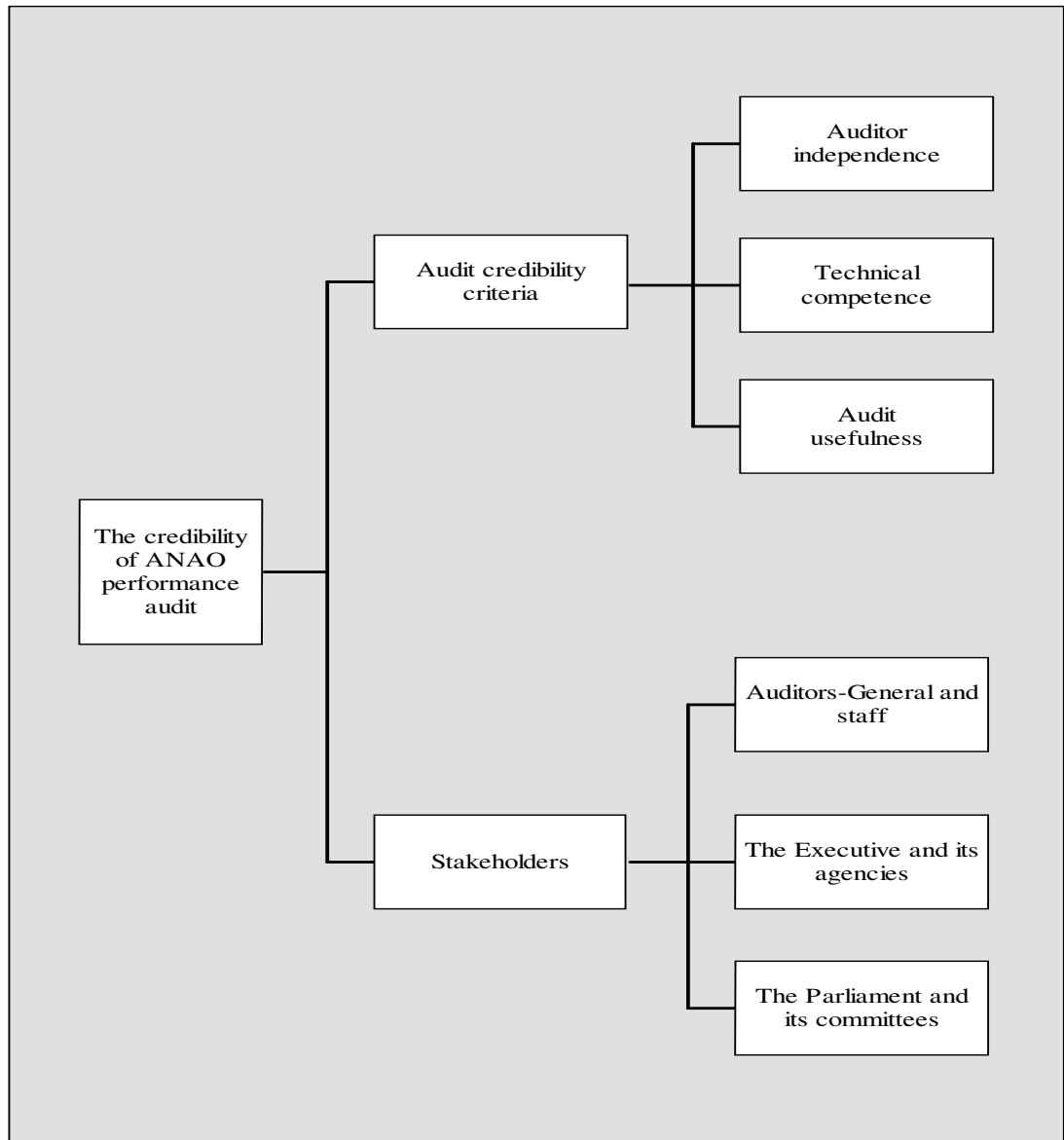
Over the years, a number of studies reported in the accounting literature, including Bamber (1983), Hirst (1994), James (2000), Beaulieu (2001) and Schwarzkopf (2007), have appealed to source credibility theory to investigate audit phenomena. Bamber (1983), for example, uses the theory to explore the sensitivity of audit managers' judgements about the technical competence of their staff, while Hirst (1994) uses it to explore auditor sensitivity to the objectivity, competence and verifiability of audit evidence. It is also found in James's (2000) doctoral thesis, which examines the perceived quality of major audit firms compared with that of internal audit staff, and in Beaulieu (2001), who examines how auditors' assessments of new client integrity affect their evaluations of audit risk, evidence and fees. Finally, for Schwarzkopf (2007), source credibility theory features in his study of investor rankings of information sources, including audit reports, and the perceived value of source credibility for investment decision-making.

The accounting literature also contains numerous studies that refer to one or more elements of source credibility, such as auditor independence and technical competence, without necessarily referring to the theory itself. Studies of auditor independence and competence (also known jointly as audit quality) are found, for example, in DeAngelo (1981), Shockley (1981), Knapp (1985), Carcello *et al* (1992), Bartlett (1993), Pasewark

*et al*, (1995), Behn *et al* (1997), Hopkins (1997), Gorman and Ansong (1998), Jeppesen (1998), Flesher and Zanzig (2000), Umar and Anadarajan (2004), Herrbach (2005), Hellman (2006), Samelson *et al* (2006), and Power and Terziovski (2007). Meanwhile, other scholars (for example, Pollitt and Summa, 1997; Bowerman *et al*, 2003; Hellman, 2006; Morin, 2001; Norris, 2002; Gomez-Guillamon, 2003; and Schwarz and Mayne, 2005) examine the notion of audit usefulness, which refers to the value (economic or otherwise) that stakeholders attribute to audits, whether in the form of enhanced decision-making, better management or comfort about auditee compliance with social norms and rituals. Arguably, usefulness is a special form of competence because it relates to the auditor's ability to provide a message that is both reliable and valuable to users.

Guided by this literature, I have adopted three criteria for evaluating the credibility of ANAO performance audit, namely auditor independence, technical competence and audit usefulness. These are bound up with source bias and expertise, which are the first two elements of Birnbaum and Stegner's (1979) theory of source credibility. The history of the function explored in Chapter 5 and the empirical analysis presented in Chapter 6 are both informed by these elements. The macro level analysis in Chapter 5 explores how ANAO performance audit achieved institutional credibility while the micro level analysis in Chapter 6 assesses the credibility of the function to those who deal with it on an everyday basis. Auditor independence, technical competence and audit usefulness are relative rather than absolute constructs, however, and so it follows that the notion of audit credibility used in this thesis is also a relative construct, with ANAO performance audit characterised by degrees of credibility that can vary over time as well as between audit engagements and types of auditee agencies. The audit credibility criteria used in this study and the three groups of stakeholders of most interest to it are depicted in Figure 1.4.

**Figure 1.4: The credibility of ANAO performance audit**



The third element of Birnbaum and Stegner's theory of source credibility, judge bias, is also relevant to this study of ANAO performance audit credibility. My analysis of stakeholder responses to the function in Chapter 6 suggests that their perceptions are influenced, or biased, by personal and contextual factors. These factors inform the analysis presented in Chapter 7.



### **1.3 Locating this study within the performance audit literature**

The previous section established the context and limits of this study by explaining the three constructs that comprise its central theme. The intention of this section is to locate the study within the performance audit literature and, in particular, to identify the studies contained therein that provide useful points of reference for this study's empirical design and findings. There is a modest but growing research literature on performance audit, some of which deals with its institutional arrangements, some with its methodologies and outcomes, and some with its interactions with stakeholders. It includes studies that examine the history and role of the function in different countries and at different levels of government, such as the cross-cultural comparative work of Glynn (1985a), Barzelay (1997), Pollitt *et al* (1999) and Pollitt (2003a), noted earlier in this chapter, and others focused on specific cultural settings including Australia (for example, Glynn, 1987), New Zealand (for example, Jacobs, 1998), Canada (for example, Radcliffe, 1998) and the UK (for example, Sharma, 2007). Among the topics considered in this literature are the meaning of performance audit, its origins and evolution, the rationale(s) for its existence, its role, mandate and intended audience(s), its relationship with public sector reform and impact on stakeholders, its technologies and reporting styles, and its future prospects. In this section, I examine three aspects of this literature that are especially relevant to this study, namely, research that is specific to the ANAO, qualitative studies of performance audit practice, and studies that question the role and practice of performance audit. The section concludes with some remarks on the significance of this literature for the present study and the study's intended contribution to that literature, in return.

#### **1.3.1 The literature on ANAO performance audit**

Most of the literature on ANAO performance audit deals in one way or another with the origins and evolution of the function. Adams (1986), Pugh (1987) and Glynn (1987), for

example, describe its difficult early years, assess its progress and ponder its future prospects, while Wanna *et al*'s (2001) commissioned history, written to commemorate the ANAO's centenary, complements and extends their research. Meanwhile, a more analytical approach to history is provided by scholars such as Hamburger (1989), Funnell (1998) and Guthrie and Parker (1999). Hamburger (1989) exposes the vulnerability of ANAO performance audit to the prejudices of individual auditors-general, Funnell (1998) uses the ANAO experience of performance audit to highlight the vulnerability of state audit to political intervention, and Guthrie and Parker (1999) reveal the malleable nature of performance audit and its ability to adapt to changing institutional pressures and expectations.

The ANAO literature also includes studies that explore issues of scope and mandate. The first study of interest is Kimball (1976), who describes Auditor-General Craik's early experiments with project audit and pleads the case for a formal extension of the Auditor-General's role. Another early contributor is Cutt (1977; see also Dillon, 1985 and Pugh, 1987), who identifies three levels of public sector efficiency requiring accountability and audit: Efficiency I, dealing with fiscal or fiduciary accountability; Efficiency II, with the ratio of outputs to inputs; and Efficiency III, with the effectiveness of the organisation in achieving its objectives. From this perspective, he analyses the extension to the Auditor-General's mandate proposed by the RCAGA, which Cutt interpreted as limited to the first two levels of efficiency. While conceding that the Auditor-General should have no role in auditing program effectiveness, Cutt argues that there is no reason for excluding administrative effectiveness (that is, the extent to which agencies monitor their own effectiveness) from the mandate. When the RCAGA's ill-defined conception of efficiency audit became part of the Auditor-General's function in 1979, it initiated a lengthy debate in the literature (see, for example, the exchange of views between Parker

and Guthrie, 1991, and Glynn, 1991), in parliament and even within the ANAO itself about the extent to which the function could be pushed towards the effectiveness end of the “audit continuum” (see Chapter 5). Nonetheless, Hatherley and Parker (1990) and McCrae and Vada (1997) reveal that effectiveness issues often featured in ANAO performance audit reports throughout the 1980s and 1990s, despite the lack of a clear mandate to do so. While the right of Australia’s Auditor-General to comment on administrative effectiveness is no longer questioned, the state auditor’s role in effectiveness review remains a subject of debate in the wider performance audit literature (see, for instance, Pendlebury and Shreim, 1990; Barzelay, 1997, and Everett, 2003). Meanwhile, Mulgan (2001) and Funnell (2003) have identified other problems of scope and mandate for Australia’s state audit function, bound up with government reform initiatives such as public/private sector commercial arrangements.

Also focused on ANAO performance audit, the present study both complements and extends the literature noted in this section in at least three ways. First, in its exploration of the institutional credibility of ANAO performance audit, the study reinterprets the early history of ANAO performance audit reported, in Hamburger (1989), Funnell (1994a and 1998), Parker and Guthrie (1999) and others, as a process of institutionalisation, thereby emphasising the function’s progress from an experimental idea to a credible state audit institution. Second, the study examines recent events in the history of ANAO performance audit that have received little or no attention to-date in the literature. Third, the qualitative approach to research that underpins the empirical part of this study, and which is used to explore performance audit credibility at the level of micro-practice, extends the literature on ANAO performance audit by providing unique insights into the views and interactions of auditors, auditees and parliamentarians. This thesis is not unique, however, in its adoption of a qualitative approach to performance audit research

but joins a select group of researchers in Canada and the UK who have applied similar techniques to the study of performance audit practice. Their contribution to the literature is considered in the following section.

### **1.3.2 Qualitative studies of performance audit practice**

Most of the studies discussed thus far have been historical in nature, their evidence drawn from archival sources. Since the late 1990s, however, the literature (for example, Keen, 1999; Radcliffe, 1999; Morin, 2001 and 2003; Sharma, 2007; and Gendron *et al*, 2007) has begun to explore the everyday practice of performance audit using qualitative research designs. A qualitative research design is one that uses a combination of methods, such as interviews, observations, document reviews and focus groups, to obtain a rich, often contemporaneous understanding of human actions, interactions and choices. Keen (1999), for example, used a qualitative approach to explore performance (VFM) audit judgements in the (UK) National Audit Office (the NAO), especially the extent to which performance audit work involves intuitive or analytical thinking. His study was conducted in three stages: first, a review of the statements contained in NAO publications to establish its own concept of good practice; second, an interpretive analysis of its performance audit reports, looking in particular at the nature of the arguments employed and the criteria used in making audit judgements; and, third, a “quasi-ethnographic” study (Keen, 1999, p. 514) in which the researcher became “immersed ... in the empirical domain” (Dey, 2002, p. 108) as a member of an audit team. This allowed him to obtain a first-hand understanding of the kinds of thinking that auditors employ in formulating audit judgements, especially at the level of micro-practice. Keen found that, in contrast to the analytical rhetoric promoted by the NAO, its auditors use a mix of intuitive and analytical thinking in forming their judgements, especially when dealing with “micro-issues” in the field. This and other evidence led him to conclude that performance audit is:

predominantly a quasi-rational activity, which embodies judgements based on the collections of large numbers of indicators ... about events, and where the relevance and accuracy of the indicators are agreed by the auditee (Keen, 1999, p. 523).

A second qualitative study of interest, and one that also considers the issue of audit judgement, is Radcliffe (1999), which focuses on how performance (efficiency) audit is carried out in practice and, in particular, how auditors come to agree among themselves about what is or is not efficient. To explore this issue, Radcliffe followed three audits conducted by the Office of the Auditor-General of Alberta during the early 1990s through their various stages of planning, execution, analysis and reporting, gathering evidence using a mix of document examination, observation and in-depth interview. In other words, like Keen (1999), Radcliffe used an ethnographic design, an approach that allowed insights to be gained through “discovery and surprise” (Radcliffe, 1999, p. 358). The themes that emerged from this process are presented in a narrative style supported by numerous quotations from his study participants, thereby allowing them to express their views in their own voice. Radcliffe reports a number of findings of interest to the present study, including the auditors’ sense of superiority about their work compared with financial audits, their sensitivity to the auditee environment when reporting findings and making recommendations and the potential for conflict between the goals of accountability and performance improvement. He concluded that performance audit is a socially grounded process in which, in their efforts to improve public administration,

auditors pay very significant attention to the social world in which they work. They map out the dynamics of political and administrative policy, they track the norms of government and of departments, and they tailor their work for persuasiveness mindful of these norms (Radcliffe, 1999, p. 357).

The persuasiveness of performance audit is the central theme of Morin (2001 and 2003), with both studies based on the same qualitative data, drawn from performance (VFM)

audits conducted during the mid-1990s by the Offices of the Auditors-General of Canada and Quebec. In contrast to Keen (1999) and Radcliffe (1999), Morin's research is not ethnographic in its design nor is it about audit judgement. Rather it uses evidence about completed audits, obtained by interview and document examination, to explore auditor-auditee relations. In the first (2001) study, Morin argues that performance audit is a process of social influence in which the audit takes on its full meaning through the relationship arising between the source of influence (the auditor) and the target of influence (the auditee). From this perspective, she identifies two groups of factors that have implications for the effectiveness of a performance audit as an "influence attempt". The first group consists of effectiveness indicators (for example, auditor assessments of auditee cooperation, auditee perceptions of the usefulness of the audit, and the audit's ability to generate parliamentary debate and press coverage), while the second are factors that impact on an audit's ability to succeed as an influence attempt (for example, auditee assessments of auditor credibility, whether auditors adopt a collaborative or confrontational style in their dealings with auditees, and factors external to the audit such as organisational culture and political will). However, when she evaluated the six audits involved in her study against these various factors, Morin was unable to determine a consistent pattern of attributes to explain the apparent success or failure of an influence attempt. Instead, her findings highlight the complex nature of auditor-auditee relations and the tensions inherent in that relationship. Morin's second (2003) study, which looks further at audit effectiveness, reveals evidence of a dichotomy in the manner in which performance auditors perceive their role, with some seeing themselves as "controllers", their role exclusively to inform the parliament, while others see themselves as "catalysts for change", their role to encourage improvement in public administration. Yet curiously, Morin also found that auditors who portray themselves as controllers are more effective at

inducing change than their “catalyst” colleagues. Morin’s studies are of interest to the present study for two reasons: first, because like the other qualitative studies reported in this section, her findings provide points of reference for the empirical analysis presented later in the thesis; and, second, because of her use of a technique borrowed from grounded theory (see Chapter 2) to analyse her empirically-rich data. A similar technique is employed in the present study.

The complex relationship between auditor and auditee noted in Morin (2001 and 2003) is also evident in Sharma’s (2007) study of performance (VFM) audit at the NAO. This is focused on the processes leading up to, and played out within, the final phase of a performance audit, including the drafting of the report, its negotiation with and clearance by the auditee agency<sup>9</sup>, and its presentation to the (UK) PAC. According to Sharma (2007, p. 289), the reporting phase of a performance audit is characterised by a complex interplay among auditors, auditees and PAC members. Using a theatrical metaphor<sup>10</sup>, Sharma examines the “performances” of these “actors”: firstly, the NAO’s “dualistic” roles in balancing its responsibilities to the PAC and its assistance to auditees; secondly, the “damage limitation” exercises carried out by auditees in front of the PAC; and, third, the dramatisations staged by members of the PAC itself as they seek to demonstrate “public accountability in progress” (Sharma, 2007, p. 290). Sharma’s study provides yet

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<sup>9</sup> In the UK, there is a long-standing convention which requires reports to parliament to be agreed with the auditee agency as to the facts and their presentation prior to their tabling. According to the NAO (1996, p. 42; see also Keen, 1999, p. 518), this is intended to avoid the need for the PAC to arbitrate between the auditor and auditee over disputed facts, so allowing it to concentrate on the issues raised in the report. This does not preclude the possibility of differences of opinion over the interpretation of facts but there should at least be agreement that the report presents fairly all material and relevant facts. For the ANAO, the situation is somewhat different in that, while there is a statutory period in which agencies have a right of comment on performance audit reports, the ANAO is not obliged to seek clearance from auditees before reports are tabled in parliament and considered by the PAC.

<sup>10</sup> Other scholars (for example, Funnell, 1994a and 1998, and Guthrie and Parker, 1999) also use a theatrical metaphor to good effect in exploring performance audit issues.

another example of the use of ethnography in understanding performance audit practice, an approach which involved observing and noting the conduct and reporting of audits, including planning meetings, fieldwork activities, expert panels, focus groups, report drafting meetings and PAC hearings. Like Keen (1999) and Radcliffe (1999), Sharma was able to engage with performance auditors in the field and observe and experience their everyday practice. One of Sharma's (2007, pp. 296-8) findings that is of particular interest to the present study deals with the NAO's challenge in balancing its roles as "watchdog" and "consultant". This is consistent with the role conflict noted in Radcliffe (1999), the dichotomy of roles discussed in Morin (2003), and the potential for role conflict for the ANAO, discussed in Chapter 6, created by its dual focus on accountability and adding value.

The final qualitative paper of interest is Gendron *et al* (2007), another Canadian study focused, like Radcliffe (1999), on the Office of the Auditor-General of Alberta. The central themes of Gendron *et al*'s study are twofold: to investigate the process by which Alberta's Auditor-General came to be recognised as a legitimate expert in the field of performance measurement, and to determine how his staff acquired expertise in measuring government performance. The study is based on 140 semi-structured interviews conducted with public officials between 1994 and 2000, a longitudinal approach to research that enabled Gendron *et al* to trace the history of a political initiative (performance measurement) as it was articulated and developed and to discover its impact on managerial practice. Their paper is of significance to the present study because of the parallels that can be drawn between Alberta's experience of performance audit and that of the ANAO, which is explored in Chapter 5. First, Gendron *et al* deals with the process by which a state auditor achieved recognition as an expert in a particular field (performance measurement) while the present study is about how a new audit technology (performance



audit) gained recognition as a credible state audit institution. Second, both stories begin with a period of scepticism within and outside the Auditor-General's office regarding the auditors' ability to evaluate public sector performance. Third, both feature an initial period of experimentation as knowledge and skills were developed and tested. Fourth, both stories suggest that the respective state auditors have reached a stage in their history where their role in auditing performance is accepted as self-evident. Fifth, both depend on NPM values and practices for the rationale for their existence. Sixth, and finally, in both stories, the state auditor has actively fostered the tenets of NPM reform through the production of Better Practice Guides, despite potentially negative consequences for auditor independence (see, for example Gendron *et al*, 2001). Notwithstanding these apparent similarities, however, the ANAO experience of performance audit has been arguably more problematic than that of the Office of the Auditor-General of Alberta, the reasons for which are explored in Chapter 5.

There are four factors that link the present study with the qualitative research examined in this section. Firstly, like Keen (1999), Radcliffe (1999) and Sharma (2007), this study employs an ethnographically-informed approach to research that involved my immersion in the empirical domain over an extended period of time. Secondly, like Morin (2001 and 2003), the present study uses a coding process borrowed from grounded theory for data analysis and interpretation. Thirdly, a narrative approach similar to that employed by Radcliffe (1999) is used to present the empirical findings of this study, allowing its stakeholder-participants to express their views in their own voice. Fourthly, the qualitative studies discussed in this section provide points of reference for the empirical findings of this study, including their various observations on auditor-auditee relationships, competing audit objectives and the connection between performance audit and NPM.

### **1.3.3 Studies that question the role and practice of performance audit**

The studies considered in the previous sections explore a range of issues associated with performance audit without necessarily seeking to question its role. In recent years, however, the literature has taken a more critical stance on the subject (see, for example, Power, 1994, 1996, 1997 and 2000; Leeuw, 1996; Kitchener *et al*, 1999, Lapsley and Pong, 2000; Bowerman *et al*, 2000; Shore and Wright, 2000; Gendron *et al*, 2001; Groundwater-Smith and Sachs, 2002, and Everett, 2003). In this section I examine a selection of these studies in order to highlight key issues of concern.

The first study of interest is Leeuw (1996), an essay that evaluates the ability of performance audit to contribute to the improvement of public sector management. Leeuw contends that performance audits can be of limited value for performance improvement because of an over-emphasis on procedure, a narrow-minded, fault-finding approach to audit work, and a lack of constructive suggestions for improvement. He also argues that performance audits can lead to unintended consequences for public sector management, such as a lack of innovation. Further, a focus on performance standards can lead managers to pay attention to form rather than substance and, similarly, focusing on quantifiable measures of effectiveness can mean a lack of emphasis on other important program objectives. Leeuw's conclusion is that there is no inherent conflict between the goals of improved accountability and improved performance but there can be conflict between the goals of performance improvement and performance audit. This is because of:

imperfections or flaws in auditing: i.e. in its underlying (implicit) theories which sometimes are naïve, in the methodology applied, which sometimes causes tunnel vision and other unintended side-effects and in the communication processes between auditors and auditees (Leeuw, 1996, p. 101).

That the goal of performance improvement can be problematic for auditors is also revealed in Gendron *et al* (2001), albeit for different reasons from those suggested by Leeuw. Gendron *et al* are interested in whether state auditors who take a proactive role in promoting “best practice” might put themselves effectively into a consultancy relationship with auditees, thereby impairing auditor independence. In the researchers’ view (2001, p. 280), “an auditor cannot claim to behave with independence when he or she examines management activities that are largely a consequence of his/her advocacy”. Like their 2001 study, Gendron *et al* (2007) is focused on the Office of the Auditor-General of Alberta, a jurisdiction in which better accountability is promoted as the “leitmotiv” (Gendron *et al*, 2001, p. 282) of NPM reform, and the Auditor-General plays an active role there in prescribing best practice. This includes the development and promotion of a performance-accountability framework that defines criteria for evaluating and improving accountability relationships. A content analysis of annual reports and interviews with senior audit and auditee staff leads Gendron *et al* to conclude that, as an advocate of change, Alberta’s state auditor has made himself vulnerable to accusations of impaired independence. This is because:

[i]n strongly promoting the performance-accountability framework, ... [the Office] is likely to be considered “accountable” for the “performance” of the accountability arrangements that result from its involvement with departments. The reputation of the Office is therefore closely tied to the success or failure of the accountability reforms that it advocates. Paradoxically, the Office is now more powerful in influencing government but, at the same time, it is more vulnerable (Gendron *et al*, 2001, p. 302).

According to Everett (2003), auditor independence can also be at risk when state auditors focus on effectiveness, even audits of administrative effectiveness, especially when program objectives and outcomes are unclear and the link between cause and effect is uncertain. This is because in circumstances such as these, the criteria for determining

effectiveness become a matter of interpretation and contest. Everett (2003, p. 78) conceptualises performance audit as a monitoring technology of NPM, with assessment criteria based on notions of economy, efficiency and effectiveness, which in principle it shares with NPM. Yet, according to Everett, while the first two criteria direct the auditor's attention to the "ideals of the market" on which NPM is based, the third criterion, effectiveness, can potentially bring the auditor's attention back in line with equity because it seeks to match outcomes and objectives, which may run counter to market ideals. If auditors are obliged to interpret objectives and outcomes, however, their views can be influenced by market rather than equity considerations, thus making them appear complicit with rationalist government ideology and undermining their perceived neutrality. In support of this argument, Everett explores the difficulties bound up with determining criteria for auditing the effectiveness of Canada's national parks program, for which there are multiple stakeholders, competing interests and high levels of uncertainty regarding agreed tasks and desired results. He demonstrates that an appearance of auditor neutrality would be very difficult to maintain under such conditions.

Problems in determining audit criteria are also raised in Lapsley and Pong's (2000) study of performance (VFM) audit in Scotland's local government and health care sectors. This is an empirical study in which the researchers explored four issues of concern (the response of professional groups to performance audit, its usefulness, its practice, and its future) with a group of expert auditors. Their research revealed evidence of differences within and among professional groups in their reactions to performance audit, with some professionals positive about performance audit, even though they may initially have been hostile towards it, and others expressing concern about its impact on their particular professional group. According to one expert auditor, the challenge for audit is to reconcile and balance the views of competing professional groups. These findings led

Lapsley and Pong to conclude that even though performance audit is now apparently taken for granted as a legitimate form of state audit, it is less embedded in organisational life than is generally believed. As regards the usefulness of performance audit, the expert auditors were generally supportive of the function because of its focus on “best practice”. Yet, while they were able to articulate the operational benefits of performance audit, the auditors were less clear about its long-term strategic value. Lapsley and Pong (2000, p. 557) argued that a major reason for the auditors’ support for performance audit was its policing role “in ensuring that resources were utilized in the most effective manner to achieve service objectives”. In terms of performance audit practice, the study found that auditors face many difficulties in deriving robust and reliable indicators of performance and in conducting audits in the field, suggesting to Lapsley and Pong that performance audit is both complex and problematic. As for the future of performance audit, the auditors were strongly of the view that it is necessary and central to achieving “best practice” in local government administration. Some auditors, however, believed that much work still needed to be done in developing benchmarks of performance and in other areas of performance audit practice. Overall, Lapsley and Pong (2000, p. 563) concluded that performance audit is “challenging, even messy” and that the practice of performance audit is “still somewhat disconnected from its stated aims”. Further, although its effectiveness as a management tool is widely taken for granted, its implementation remains a matter of concern.

The final group of studies to which I wish to draw attention is the so-called audit society literature associated with Power (1994, 1996, 1997 and 2000). For Power (2000, pp. 112-6), performance (VFM) audit is part of an “explosion” of audit activity brought about by the rise of new ideas about public sector governance, increased demands for accountability and transparency, and the use of quality assurance models of organisational

control. This audit explosion is, in fact, the creation of an audit society that demands constant surveillance and inspection of public sector performance. Power (1997, pp. 95-8) argues that organisations are likely to react to the pressures of the audit society by either resisting or adapting to change. The first reaction, for which he uses the term *decoupling*, occurs when an audited body establishes a formal management structure to comply with audit rituals while, at the same time, conducting its operations through different systems and practices that are relatively untouched by management reform. The second reaction, *colonisation*, is where new values and practices penetrate deep into the culture of the organisation creating “new mentalities, new incentives and perceptions of significance” (Power, 1997, p. 97). These different responses to reform are considered in Kitchener *et al* (1999), who explore the impact of quality audits on the management of children’s homes, and Groundwater-Smith and Sachs (2002), who examine strategies for teachers in dealing with managerialist educational environments.

Another of Power’s concerns about the role of audit in the audit society is its implications for auditor independence, especially epistemic independence (Power, 1997, p. 133). This refers to the auditor’s ability to audit compliance against clear rules using a knowledge base that is independent of the auditee. Power argues that when auditors move from auditing compliance to auditing effectiveness, epistemic independence becomes less likely because auditing becoming a process of negotiation between auditor and auditee over criteria and findings (see, for example, Radcliffe, 1999, Everett, 2003 and Sharma, 2007). It is notable, however, that the notion of the audit society is not without its critics (see, for example, Bowerman *et al*, 2000, and Humphrey and Owen, 2000). According to Bowerman *et al* (2000), for example, it is not so much auditing that is the problem but rather the plethora of organisational targets, objectives and performance indicators bound up with NPM that provide the criteria for audit and inspection. In their view, *the audit*

*society* is a misnomer and the notion should be referred to instead as *the performance measurement society*.

The critical studies examined in this section are significant for the present study because of the questions that they raise about the role and practice of performance audit and the issues of auditor independence, technical competence and audit usefulness that they portray as problematic for the function. Some of the empirical findings of this study are consistent with, and lend support to, arguments presented in this literature.

#### **1.3.4 Concluding remarks**

It was noted earlier in this chapter that this study has two dimensions: an historical dimension, which explores the transformation of ANAO performance audit into a credible audit function, and an empirical dimension, which focuses on the credibility of the function to those who deal with it on an everyday basis. The historical dimension draws on a variety of archival sources, including the literature on ANAO performance audit canvassed above, and complements and extends that literature through its reinterpretation of history and its analysis of recent events. This thesis is not a cross-cultural comparative study and my analysis of performance audit is firmly located within the ANAO. However, studies of performance audit in specific audit jurisdictions, such as those of Jacobs (1998), Radcliffe (1998) and Sharma (2007), enable parallels to be drawn and contrasts to be made across jurisdictions. The present study provides a further source of comparison that can inform future cross-cultural research.

The study's empirical dimension has a twofold interest in the literature explored in this chapter. The first is found in the various qualitative studies that provide precedents and inspiration for the study's empirical research design, including its ethnographically-informed approach to data collection, its use of techniques borrowed from grounded

theory for data analysis and interpretation, and the narrative style with which its empirical findings are presented. It is hoped that my approach to research will, in turn, inspire other researchers interested in exploring the everyday practice of accounting and audit. The second reason that the literature explored in this section is of interest to this study relates to their findings, especially those dealing with issues of auditor independence, technical competence, audit usefulness and auditor-auditee relations. This study does not set out to test the theories and findings of prior research but it does draw on them where relevant as points of reference for its own empirical findings. In exploring the credibility of ANAO performance audit to those most intimately involved in the process, the study, once again, complements, extends and provides a fresh perspective on existing knowledge.

#### **1.4 The plan of the thesis**

This section explains how the thesis is structured to achieve its objectives (see Figure 1.5), with particular emphasis on the purpose and themes of its remaining seven chapters. It begins with Chapter 2, the purpose of which is threefold: to explain the study's research philosophy and approach, to associate it with an appropriate school of thought and to describe its research design. The arguments presented in this chapter are influenced primarily by Laughlin (1995), who contends that researchers need to make clear their positions on each of three dimensions of theoretical and methodological choice and associate their research with the school of thought that best represents those positions. The chapter discusses the theoretical and methodological choices that underpin this study and associates it with Laughlin's middle-range thinking school of thought. Attention is then given to the study's empirical research design, including its data sources and methods of data collection and analysis.



Consistent with the theoretical and methodological positions argued in Chapter 2, this study uses a theoretical lens to reduce complexity and help make sense of its findings. The lens chosen for this purpose is the new institutionalism, informed by Birnbaum and Stegner's (1979) source credibility theory. With source credibility theory already considered in Section 1.2.3, the purpose of Chapter 3 is to explain the new institutionalism and identify the new institutionalist concepts that have potential as a theoretical lens. The chapter begins by presenting an institutional perspective on organisations and explaining how ANAO performance audit can be construed as an emerging institution located within Australia's modern public accountability framework. It then outlines five new institutionalist concepts, namely legitimacy, rationalised myths, isomorphism, institutionalisation and strategic response, and indicates their relevance to the study.

Chapter 4 is focused on the institutional environment of ANAO performance audit, providing a contextual background to the study's central theme. It does this by exploring the ideas and entities that comprise the public accountability framework of which the ANAO and its performance audit function form an integral part. The chapter begins with Australia's Westminster-style system of responsible government, including the partial separation of powers between the executive and the parliament (that is, the legislature) that is typical of a Westminster-style system of government. Also highlighted is the gap between the myth and reality of Westminster, especially in terms of the parliament's ability to hold the executive to account. Next, the chapter examines the notion of public accountability itself, its implementation within Australia's public accountability framework and its relationship with public sector reform. The third and final theme is the history and role of Australia's state audit function, which has responsibility for performance audit, including its long-standing relationship with its ally, the PAC.

Chapter 5 explores the first of the two research questions that inform this thesis, namely the factors that helped ANAO performance audit to achieve widespread acceptance, at the macro, institutional level, as a credible function of state audit. In so doing, the chapter explores the contributions of five auditors-general, namely Don Steele Craik (1973-81); Keith Brigden (1981-5), John Monaghan (1985-7), John Taylor (1988-95) and Pat Barrett (1995-2005), to the development of its institutional credibility, using archival sources such as audit and government reports, parliamentary proceedings, press clippings and the performance audit literature. The story of how ANAO performance audit achieved institutional credibility is told, through the study's theoretical lens, as a process of institutionalisation, starting with the initial "encoding" of an ambitious idea and concluding with its "objectification" and "externalisation" as a credible state audit function. Chapter 5 highlights the challenges that ANAO performance audit encountered in its struggles to achieve institutional credibility, and in fact continues to encounter on occasions, as well as the significance of NPM in achieving and maintaining that credibility.

The next two chapters deal with the second of this study's two research questions, namely the credibility of ANAO performance audit at the level of micro-practice to those most intimately involved in the process. Both chapters are based on qualitative evidence gathered in the field by in-depth interview and participant observation, which I analysed using techniques borrowed from grounded theory. Chapter 6 has a dual purpose: firstly, to present the results of this analysis and, secondly, to assess the ANAO's performance audit function against the first of two streams of ideas that emerged from the study's empirical data, namely the conformance of ANAO performance audit with the audit credibility criteria of auditor independence, technical competence and audit usefulness. In terms of the study's theoretical lens, Chapter 6 is about the isomorphism of ANAO

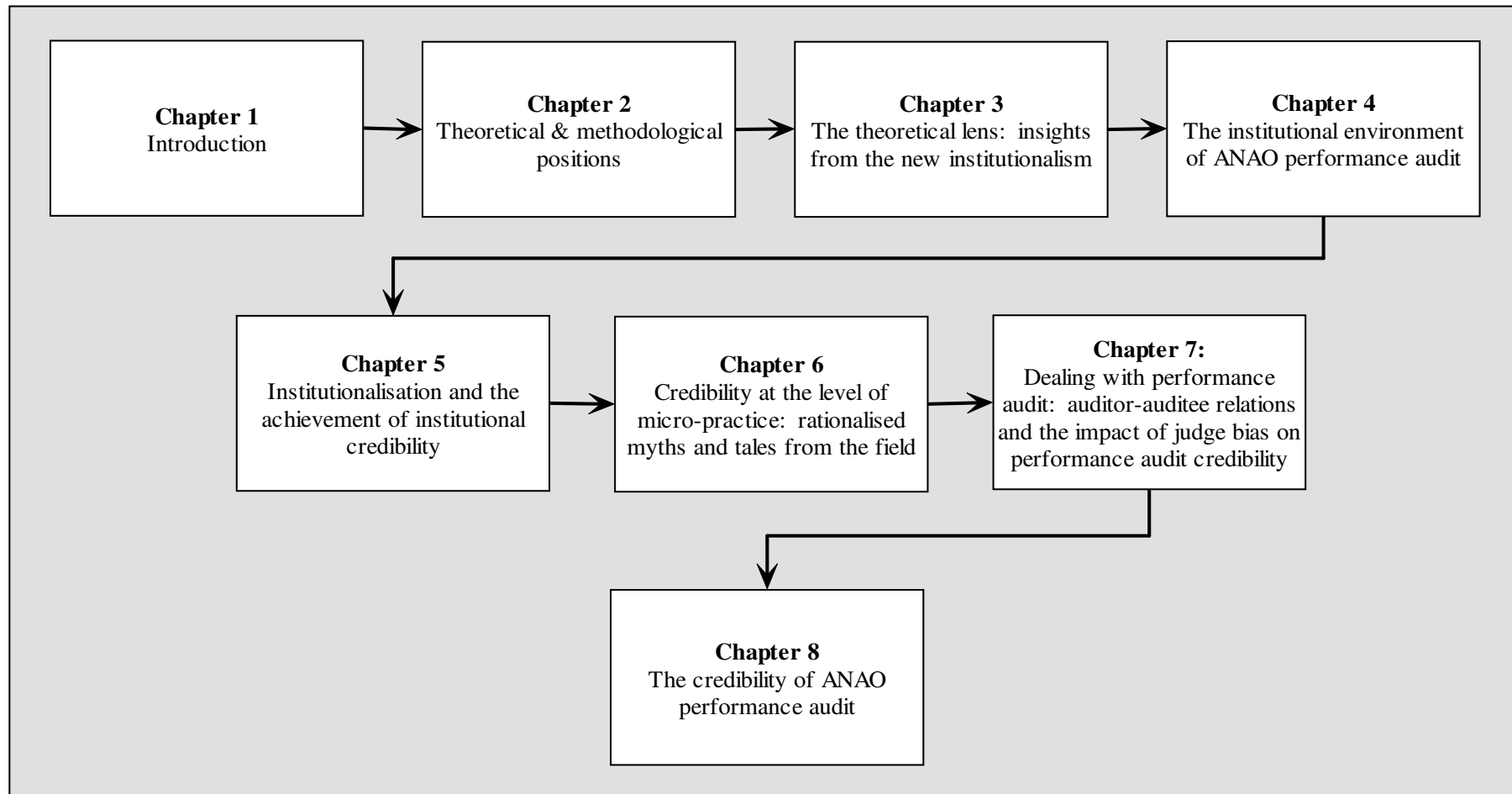
performance audit with the rationalised myths of audit. The chapter draws three broad conclusions: first, that financial and performance auditors share similar norms and values; second, that the credibility of ANAO performance audit in the field is problematic and, third, that the relationship between auditor and auditee is a complex one, characterised by a confusion of emotions including fear, frustration, empathy, pride and respect.

The second stream of ideas to emerge from the study's empirical data is about auditor-auditee relationships and this is the focus of Chapter 7, which considers the responses of auditors and auditees to performance audit and to one another. The chapter begins with the responses of auditees to the ANAO and then examines the responses of ANAO staff, consultants and PAC members to auditees. The findings suggest that participants with a vested interest in the survival and growth of performance audit (that is, auditors, ANAO consultants and PAC members) are generally positive about the function and comfortable in its capacity to deliver value, while the auditee-participants, who have a vested interest in protecting themselves and their agency, are largely negative about it and resistant to its processes. The chapter then examines the auditees' responses further through the lens of Oliver's (1991) typology of strategic responses, revealing varying reactions to ANAO performance audit from compliance to manipulation. The chapter reflects on possible reasons for the participants' differing responses as well as the implications for performance audit credibility.

The final chapter, Chapter 8, concludes the thesis by summarising the different strands of ideas that emerged from the study's archival and empirical analysis and forming an overall view of the credibility, or otherwise, of ANAO performance audit. It also reflects

on the study's contribution to the literature, its limitations and the opportunities suggested by its findings for further research.

**Figure 1.5: The plan of the thesis**



## **CHAPTER 2**

### **THEORETICAL AND METHODOLOGICAL POSITIONS**

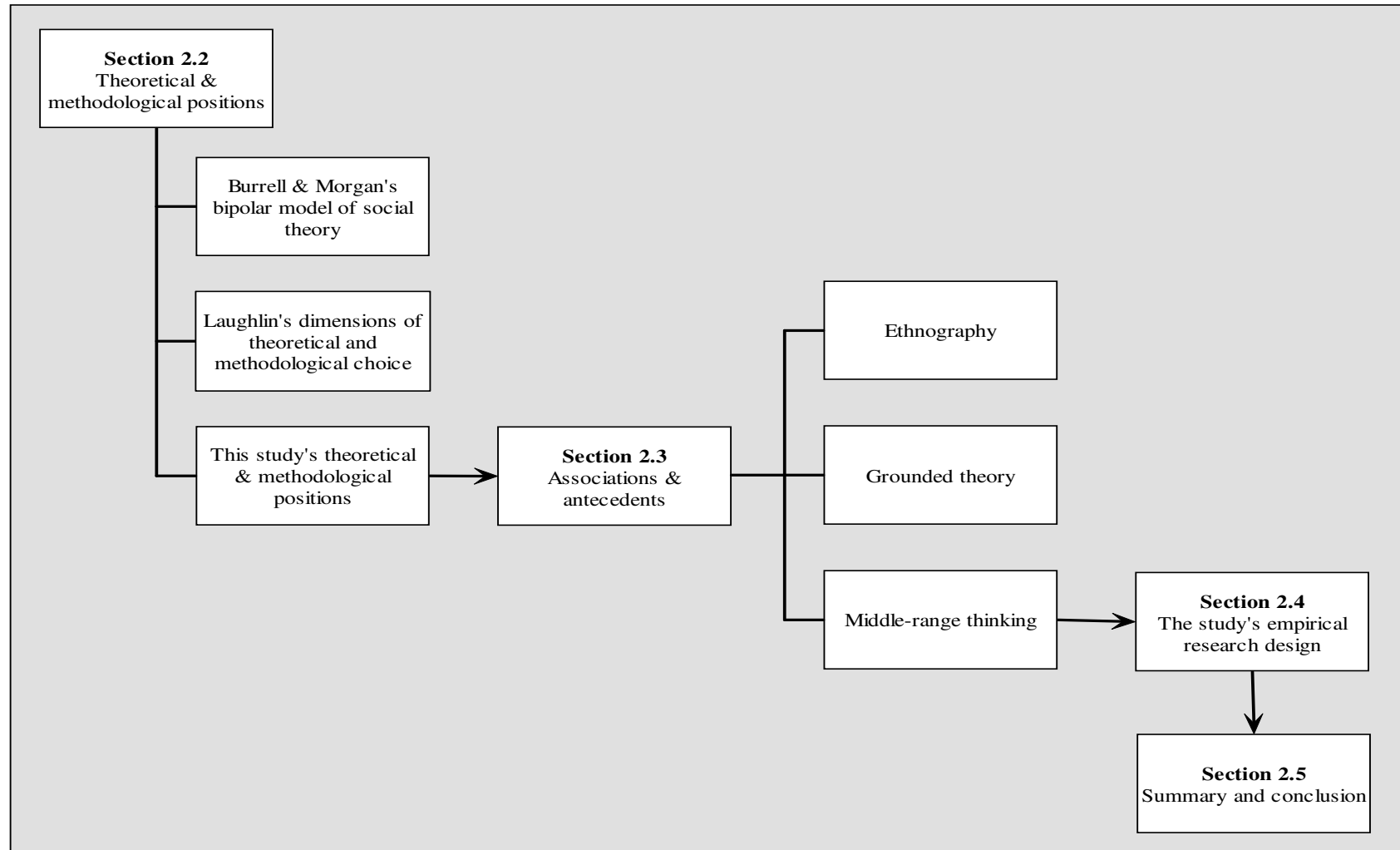
*A man can know nothing of mankind without knowing something of himself. Self-knowledge is the property of that man whose passions have their full play, but who ponders over their result (Benjamin, Earl of Beaconsfield, Disraeli, 1804 - 1881).*

#### **2.1 Introduction**

Laughlin (1995, p. 65) argues that because all empirical research is partial and incomplete, it is important for researchers to be clear about the biases and exclusions of their chosen theoretical and methodological positions. Consistent with Laughlin's argument, the aim of this chapter is to make clear the theoretical and methodological positions that I have adopted for this study of performance audit credibility and, in so doing, acknowledge the constraints and limitations of its approach. The objectives are threefold: to describe the study's research philosophy and approach, locate it within the interpretive research tradition, and explain its empirical research design.

In its construction, Chapter 2 acknowledges Laughlin's (1995, p. 65) argument that, "whether appreciated or not", research design is a two-stage process of theoretical and methodological choice requiring, first, a decision about where to place the research on dimensions of ontology, methodology and change, and, second, a deliberate association with a school of thought expressing similar positions on those continuums. Hence, the chapter is organised around three themes (see Figure 2.1): first, the study's theoretical and methodological positions (Section 2.2), the analysis of which is informed by Burrell and Morgan (1979) and Laughlin (1995); second, the associations and antecedents for those positions (Section 2.3), where I investigate the potential for three schools of thought to provide a research home for this study; and, third, the study's research design (Section 2.4), in which I explain how the study's data was identified, gathered and treated. The chapter concludes in Section 2.5 with a summary of its key themes and a reflection on their contribution to this study of ANAO performance audit credibility.

**Figure 2.1: The themes of Chapter 2**





## **2.2 Theoretical and methodological positions**

Since the 1980s, empirical research in accounting has been influenced by diverse schools of thought from a variety of disciplines, including financial economics, behavioural sciences, politics and sociology. This has resulted in a proliferation of research methods and techniques. According to Laughlin (1995, p. 64), this very diversity and proliferation “leave those starting out on the road to research, and even those well-grounded in one perspective, perplexed and confused as to the significance or otherwise of what all this means for undertaking research”. In an effort to reduce this perplexity and confusion, Laughlin identifies five “domains of choice” that are implicit in these various approaches: a position on being (ontology), on the role of the investigator (human nature), on perceptions of society (sociology), on perceptions on understanding (epistemology) and ways to investigate the world (methodology). Further, he argues that these five domains can be clustered under three broad “bands” of choice, which he labels theory, methodology and change.

In broad terms choice with regard to “theory” involves deciding on a view about the nature of the world ... and what constitutes knowledge either past or present and how it relates to the current focus of investigation ... . The choice in relation to “methodology” involves taking a position on an amalgam of the nature and role of the observer in the discovery process ... and the level of theoretical formality in defining the nature of the discovery methods ... . Finally, the choice in relation to “change” involves taking a position on whether the investigation is intentionally geared to achieve change in the phenomena being investigated ... (Laughlin, 1995, p. 66).

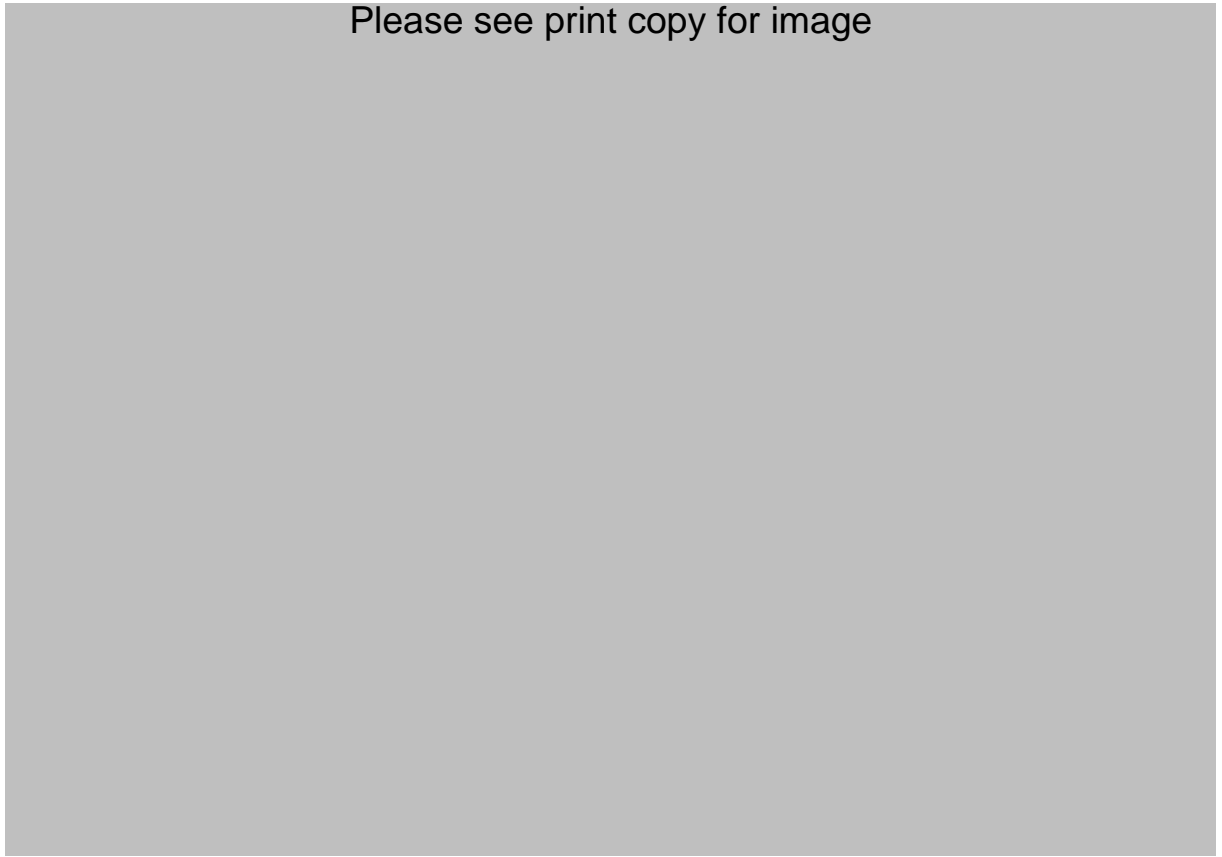
In devising his framework of choice dimensions, Laughlin was inspired by Burrell and Morgan’s (1979) much-cited work on sociological paradigms and organisational analysis (see for example Morgan and Smircich, 1980; Abdel-Khalik and Ajinkya, 1983; Tomkins and Groves, 1983a and 1983b; Hopper and Powell, 1985; Roberts and Scapens, 1985;

Chua, 1986; Nahapiet, 1988; Boland, 1989; Covaleski and Dirsmith, 1990; Gioia and Pitre, 1990; Dent, 1991; Sinclair, 1995; Power and Laughlin, 1996; Lodh and Gaffikin, 1997; Willmott, 1983 and 1993; Llewellyn, 2003; and Lowe, 2004a). It is useful, therefore, to review Burrell and Morgan's model of social theory first, before exploring Laughlin's framework further.

### **2.2.1 Burrell and Morgan's bipolar model of social theory**

Burrell and Morgan (1979) proposed a two-dimensional, four paradigm model of social theory. The dimensions encapsulate two sets of opposing views of the world; a subjectivist-objectivist dimension and a regulation-radical change dimension. The subjectivist-objectivist dimension (see Figure 2.2) distinguishes between those theorists who subscribe to a nominalist ontology, an epistemology of anti-positivism, a voluntaristic view of human kind and an ideographic approach to research, and those whose view of the world features realism, positivism, determinism and a nomothetic methodology. The extreme positions that Burrell and Morgan describe serve to illustrate the four key assumptions of the subjective-objective dimension. The nominalist ontology (or conception of reality), according to Burrell and Morgan (1979, p. 4) revolves around the assumption that the social world external to individual cognition is made up of nothing more than names, concepts and labels which are used to structure reality. The realist, however, sees the world as made up of "hard, tangible and relatively immutable structures". Positivism deals with epistemologies which, for Burrell and Morgan (1979, p. 5) are assumptions about the grounds of knowledge to explain and predict what happens in the social world by searching for regularities and causal relationships between its constituent elements. The anti-positivist takes a relativistic view of the social world and argues that it can be understood only from the point of view of the individuals who are directly involved in the activities which are to be studied.

**Figure 2.2: Burrell and Morgan's subjective-objective dimension**  
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(Burrell and Morgan, 1979, Figure 1.1, p. 3)

Voluntarism-determinism deals with human beings and their relationship with the environment, and in particular the degree to which they are capable of exercising free will. A deterministic view regards the individual as being at the mercy of the situation or environment in which he or she is located, whereas a voluntaristic view sees the individual as completely autonomous and free-willed. The ideographic-nomothetic aspect of Burrell and Morgan's subjective-objective dimension deals with the role of the researcher and his/her methodology; that is, how the researcher attempts to investigate and obtain knowledge about the social world. An ideographic approach is one where the researcher obtains insights using techniques that take the researcher inside the subject of interest, for example via personal encounter with the subject and/or involvement with the subject's "everyday flow of life". The ideographic researcher lets the subject "unfold its nature and characteristics during the process of investigation" (Burrell and Morgan, 1979,

p. 6). A nomothetic approach, however, emphasises adherence to protocol and rigorous method, and the systematic gathering of data using surveys, experiments and other standardised research instruments.

Burrell and Morgan's other dimension, that of regulation-radical change, encapsulates the idea that social theorists are primarily concerned either with providing explanations of society in terms which emphasise its underlying unity and cohesiveness or finding explanations for the radical change, deep-seated structural conflict, modes of domination and structural contraindication which theorists see as characterising modern society (Burrell and Morgan, 1979, p. 17). Burrell and Morgan refer to the former as the sociology of regulation and the latter as the sociology of radical change (see Table 2.1). Researchers who adopt the former view, however, are not necessarily averse to the idea of change, particularly if it improves or refines the status quo. The difference between the two sociologies is the degree of change that is sought.

**Table 2.1: Burrell and Morgan's regulation-radical change dimension**  
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(Burrell and Morgan, 1979, p. 18, Table 2.2)

The cells created by the intersection of their subjective-objective and the regulation-radical change dimensions represent four contiguous but distinguishable paradigms (see

Figure 2.3), which Burrell and Morgan (1979, p. 23) argue are intended to emphasise “the commonality of perspective which binds the work of a group of theorists together in such a way that they can be usefully regarded as approaching social theory within the bounds of the same problematic”.

**Figure 2.3: Burrell and Morgan’s four sociological paradigms**

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(Burrell and Morgan, 1979, Figure 3.3, p. 29)

The functionalist paradigm, located in the bottom right-hand cell, represents a perspective “firmly rooted” (Burrell and Morgan, 1979, p. 25) in the sociology of regulation and objectivism. Social system theory and positivism are two of the schools of thought that Burrell and Morgan associate with this paradigm. The interpretive paradigm, located in the bottom left-hand cell, is associated with schools of thought like phenomenology,

ethnomethodology and hermeneutics. Burrell and Morgan (1979, p. 28) describe the interpretive paradigm as informed by a concern to understand the world as it is, to understand the fundamental nature of the social world at the level of subjective experience. The radical humanist paradigm, located in the top left-hand cell, is similar to interpretivism except for its frame of reference, which Burrell and Morgan (1979, pp. 32-3) describe as committed to a view of society which emphasises the importance of overthrowing or transcending the limitations of existing social arrangements and releasing society from the constraints placed upon human development through a change in modes of cognition and consciousness. Burrell and Morgan associate radical humanism with, among others, French existentialism and German critical theory. Lastly, in the top right-hand cell is the radical structuralist paradigm, representing theorists who advocate a sociology of radical change from an objectivist standpoint. Burrell and Morgan describe radical structuralism as rooted in a materialist view of the natural and social world and committed to social change, emancipation and potentiality, through structural relationships and interrelationships within the context of total social formations.

Common to all theorists [in this sector] is the view that contemporary society is characterised by fundamental conflicts which generate radical change through political and economic crises. It is through such conflict and change that the emancipation of men from the social structures in which they live is seen as coming about (Burrell and Morgan, 1979, p. 34).

For Burrell and Morgan, radical structuralism owes its major intellectual debt to the work of the mature Marx and reflects an emerging area of interest to social researchers, which Burrell and Morgan refer to as conflict theory.

Burrell and Morgan's model has not been without its critics (see in particular Chua, 1986 and Willmott, 1993), in part because of its insistence on mutual exclusivity of paradigms

which, according to Roberts and Scapens (1985, p. 444; see also Gioia and Pitre, 1990, p. 595) “holds out the unwelcome promise of a social science that is forever internally divided”. Boland (1989, p. 592) argues that although Burrell and Morgan have contributed to breaking the hold of “crude objectivism” over accounting research, there are potential pitfalls for those who would take up the “new subjectivist banner”, including the trap of the objectivist-subjectivist continuum itself. For Boland, because objective fact is socially-constructed and symbolic meaning is empirically grounded, neither the subjective nor the objective can stand alone as an area of study. Further, although they used Burrell and Morgan’s framework to analyse prior research in management accounting, Hopper and Powell (1985, pp. 430-1) stress that it would be “foolhardy to maintain that all social science could be uniquely and meaningfully classified with respect simply to two dimensions”. Willmott (1993, p. 682) is also concerned about the division of social and organisational analysis into four, mutually exclusive paradigms, which he argues lacks credibility and unnecessarily constrains the process of theory development within polarized sets of assumptions about science and society.

These concerns aside, the importance of Burrell and Morgan’s work for understanding sociological approaches to empirical research is widely acknowledged (see for example Boland, 1989, pp. 591-2; Laughlin, 1995, p. 65; Lowe, 2004a, p. 217; Willmott, 1993, p. 682). This is particularly evident in Hopper and Powell (1985), who utilise an amended version of Burrell and Morgan’s framework to group and review studies relating to the social and organisational aspects of accounting, and Gioia and Powell (1990), whose argument for a multi-paradigm perspective on theory-building is constructed upon Burrell and Morgan’s four-paradigm framework. However, it is Laughlin’s three-dimensional model of theoretical and methodological choice, which is also built upon Burrell and Morgan’s framework, which is of particular interest to the current chapter because of its

utility for explaining the theories and methods underpinning the research reported in this thesis.

### **2.2.2 Laughlin's dimensions of theoretical and methodological choice**

Compared with Burrell and Morgan's simple "bipolar dualism" (Laughlin, 1995, p. 66), Laughlin's framework is more complex in its dimensions and its description of the interrelationships amongst those dimensions. The framework embraces three dimensions of choice covering theory, methodology and change, each of which is presented as a continuum that ranges in intensity from low, through medium, to high. Laughlin's theory dimension deals with "the level of prior theorizing and prior theories that can legitimately be brought to the empirical investigation". At one extreme, high levels of prior theorising are indicative of an assumed material world with high levels of generality and order, well researched through previous studies. Laughlin argues that, at this end of the continuum, new research endeavours are essentially incremental studies primarily focused on confirming well-developed theory. At the other extreme, low levels of prior theorising:

assume that the world is not material – it is a projection of our minds – and since such projections differ, generalities are impossible. Equally, learning from or relying on previous theoretical studies and insights is both inappropriate and potentially corrupting of the diversity and detail of the present study (Laughlin, 1995, pp. 66-7).

The methodology dimension refers to the nature of the methods for empirical investigation and the role of the researcher in the research process. At the high end of this continuum, the method of investigation is defined according to "some theoretical model of how the observer should see ... [and]... an implicit assumption that the observer is largely irrelevant to the process" (Laughlin, 1995, p. 67). At the low end, the act of research is "reliant on the implicit perceptual powers of the individual researcher", and the researcher is thus free "to be involved in the observation process completely uncluttered



by theoretical rules and regulations on what is to be seen and how the “seeing” should be undertaken”. The third and last dimension is the change dimension which, according to Laughlin (1995, p. 67), is more complex and uncertain in its definition. Nonetheless, he suggests that it refers in general to attitudes by the researcher concerning the worth or otherwise of maintaining the current situation that is being investigated as well as views about the necessity for actually doing something about this situation. Thus high, medium and low levels of choice refer to the strength of the researcher’s belief regarding the need for change in the status quo. Whereas those who see little problem in maintaining the status quo adopt a low position on the choice dimension, those who “are of the view that everything they see is bound to be inadequate and incomplete and in need of change” adopt a high position. Those who adopt a medium stance, however, are arguably “more strategic in their attitude to change – open to maintaining certain aspects of current functioning but also open to challenging the status quo” (Laughlin, 1995, p. 68).

Laughlin (2005, pp. 68-9) seeks to represent the interrelationships among these three dimensions of choice by means of a three-dimensional “plane” (see Figure 2.4), which portrays the theory and methodology choices as related in a simple linear fashion but reveals no obvious relationships involving the choice dimension. By including choice within the plane but not linking it to the other two dimensions, Laughlin attempts (unsuccessfully, in my opinion) to convey the idea that the relationship between choice and the other two dimensions is unpredictable. Laughlin’s ability or otherwise to create a faithful, graphical representation of his ideas, however, is of less importance than the ideas themselves. Arguably, the value of Laughlin’s model of theoretical and methodological choice lies firstly in its explicit recognition of these three choices, which for Laughlin (2004, p. 263) is “the fundamental purpose of Laughlin (1995)”; secondly in its tolerance of the middle-ground (that is, medium) view and the platform it provides for

Laughlin's "middle-range thinking" approach to research, which is discussed later in this chapter; and thirdly, in creating a framework which, for Parker and Roffey (1997, pp. 214-5), provides a "significant vehicle for comparing the theoretical and methodological implications of economic theorists, behaviourists, and researchers such as grounded theorists whose approaches fit into neither camp".

**Figure 2.4: Laughlin's dimensions on the choice process for empirical research**

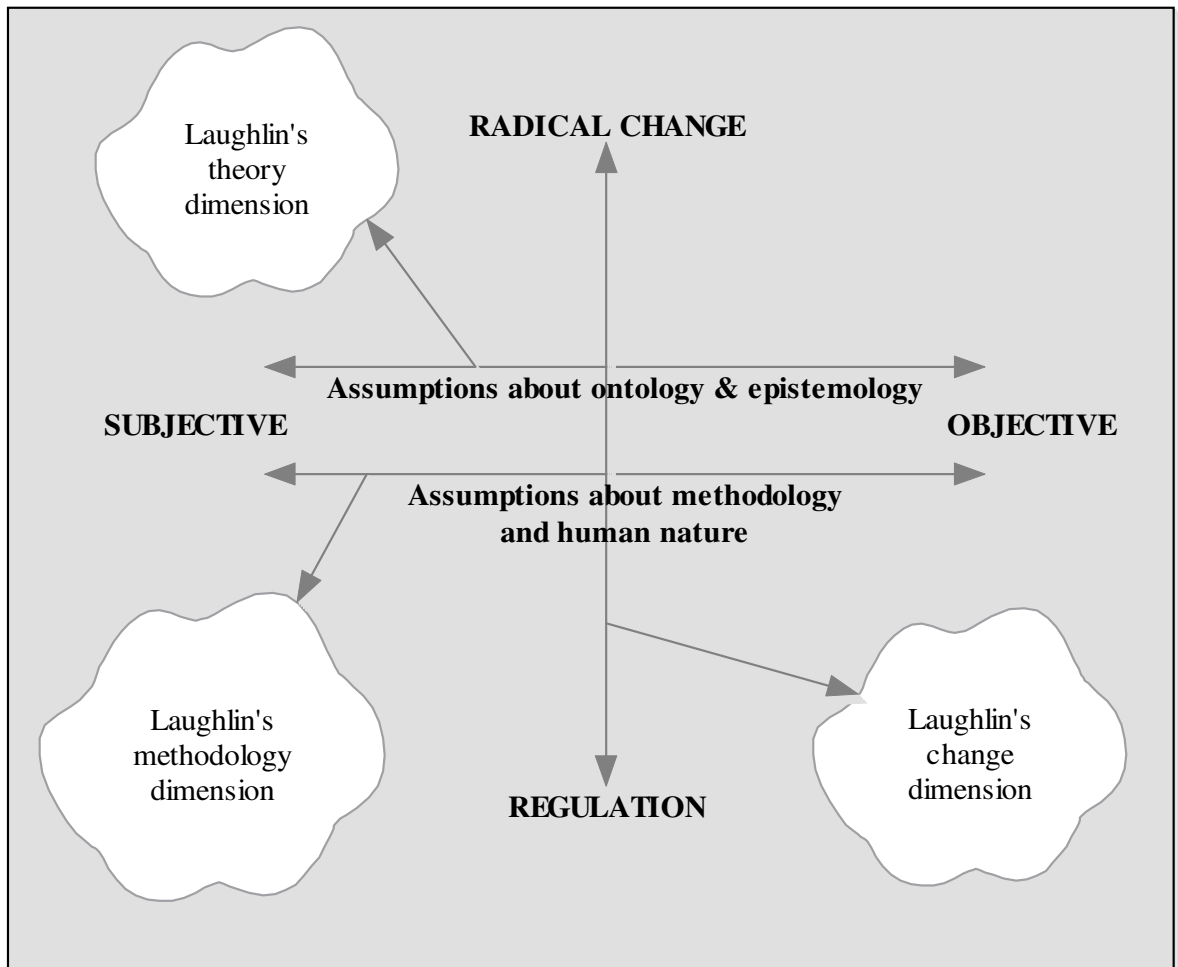
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(Laughlin, 1995, p. 68, Table 1)

Despite its additional dimension and greater complexity, however, the relationship between Laughlin's framework and Burrell and Morgan's model remains strong (see Figure 2.5), with Burrell and Morgan's ontology and epistemology assumptions reflected in Laughlin's theory dimension, their methodology and human nature assumptions in his

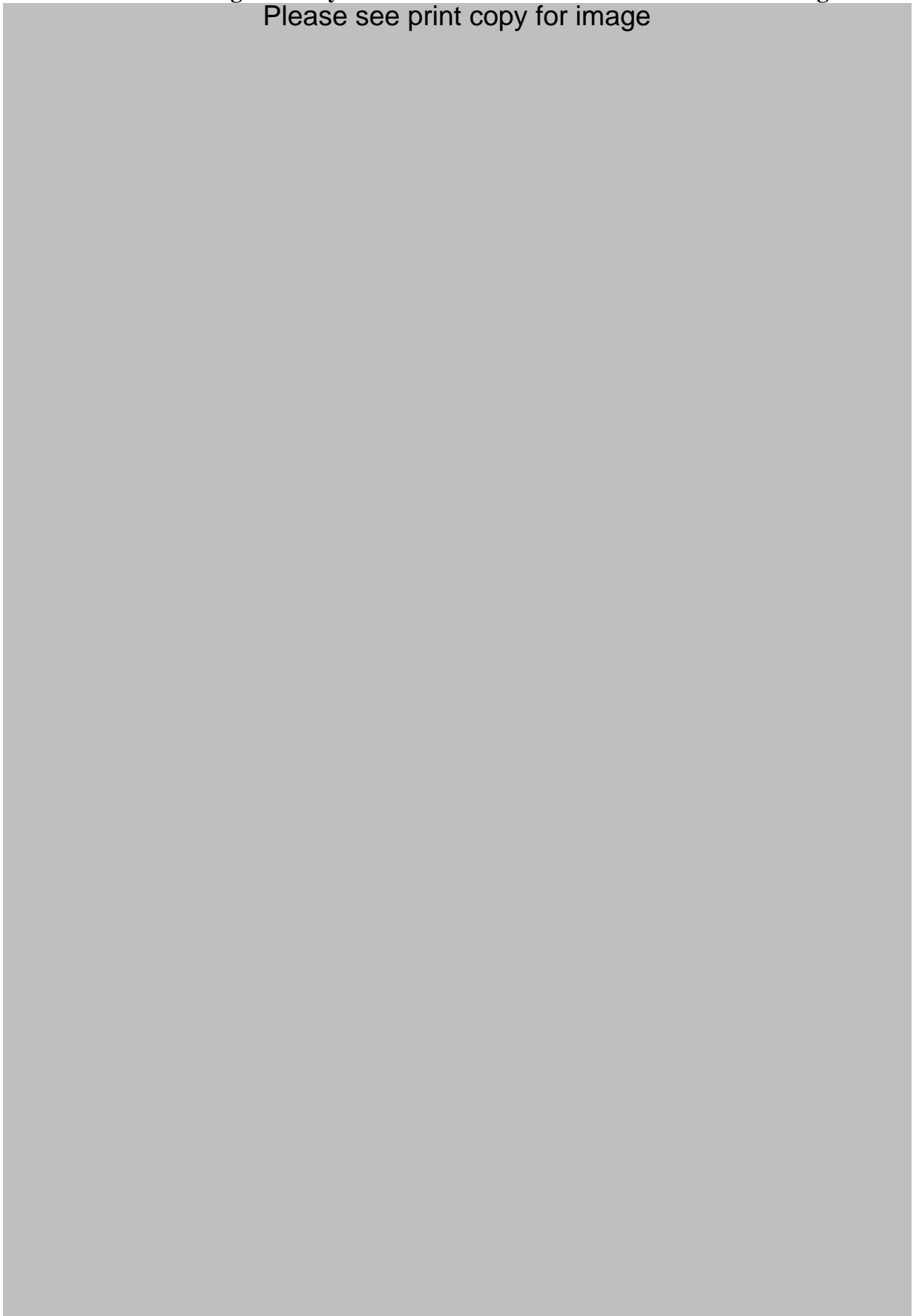
methodology dimension, and their regulation-radical change dimension broadly equivalent to his change dimension.

**Figure 2.5: Relationship between Burrell and Morgan’s bipolar model and Laughlin’s three dimensions of choice**



After proposing his framework of theoretical and methodological choice, Laughlin analyses the various schools of social and political thought from which he argues (1995, p. 69) accounting researchers have borrowed in recent years. One of the outcomes of this analysis is a set of key characteristics, abstracted from the “dominant” schools of thought and classified according to their relative positions on each of the three dimensions of theoretical and methodological choice. Laughlin’s conception of these key characteristics are summarised in Table 2.2.

**Table 2.2: Laughlin's key characteristics of the dominant schools of thought**  
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(Laughlin, 1995, p. 80, Table 1)

For Chua (2004, pp. 259-60), the characteristics listed in this table are ambiguous in at least two respects, including Laughlin's interpretations of the notions of discovery and analysis.

Laughlin argues that with middle-range theorising the observer is important and is always part of the process of discovery. It is unclear how the word 'discovery' is being used there. Positivists tend to talk about 'discovering' empirical generalities. By contrast, 'critical' theorists of quite different ilk, from the likes of Marcuse, Adorno and Horkheimer to Knorr-Cetina, Foucault and Latour talk about the fabrication of knowledge. They write that 'facts' are the work of the historical practice of communities. It would have been helpful had some clarification been provided as to the concept of scientific discovery.

In addition, it is not clear why critical theory necessitates case-study data that is heavily descriptive. Again, can data ever not be analytical, if by that we mean 'theorised'? I find this distinction between 'descriptive' and 'analysis' rather odd given that critical theorists typically deny that there can be a distinction between observation and interpretation, between fact and value.

While I acknowledge that Laughlin's analysis is open to debate, a view with which Laughlin (1995, p. 69) himself concurs, and that the characteristics identified may be ambiguous and incomplete, nonetheless in my view the characteristics listed in Table 2.2 provide a useful vehicle for introducing a particular theoretical and methodological stance, such as the one adopted for the present study of ANAO performance audit credibility.

### **2.2.3 The study's theoretical and methodological positions**

In terms of Laughlin's theory dimension, the present study, which explores the credibility of ANAO performance audit, has adopted a low to medium position, a choice that was driven by considerations regarding the generalisability of the results and the role of pre-defined theory. As an evolving social construct, performance audit needs to be

understood in context. Among the many jurisdictions in which it has been introduced, whether at state or federal level, in Australia or elsewhere, there are discernible differences in history and evolution, legislative mandate, resources, organisational structures and audit environments that are likely to impact upon the nature of the performance audit activity that is practised in each jurisdiction. Thus, it is argued that the study's findings are unlikely to be generalisable in a positivist sense to other performance audit settings. Nevertheless, a study of a mature site like the ANAO can be expected to yield insights, analogies and lessons that are broadly applicable to other jurisdictions, and which amplify or extend existing knowledge. In other words, similar to Gendron *et al* (2007, p. 102), I argue that the study attends to the specificity of the ANAO situation, not to celebrate its particular story but to explore general issues of concern relating to the credibility of performance audit as a state audit function. That there is potential for the study to have wider application, notwithstanding its specificity, is supported by Jönsson and Macintosh (1997, p. 382), who argue that “while interpretive studies usually do not claim generality of conclusions or even universality, they can introduce proposals for reinterpretation of theoretical claims, identify problems with current knowledge, and propose prospects for new research”.

A second reason for adopting a low to medium position on Laughlin's theory dimension is that an approach involving a high level of prior theorising would be too restrictive for this study, which deals with an emerging state audit institution. There are, however, theories that deal with broad social phenomena such as institutions, power, professionalism, resource dependency, social influence and trust, any one of which arguably could provide a “lens” for examining the subject of interest, so providing at least a partial understanding of it. Indeed, it is because there are so many ways of conceptualising performance audit that a certain degree of prior theorisation, in the form

of a theoretical lens, is necessary in order to limit the complexity and make sense of the results. As the theoretical lens for this study, I have chosen a theory from the organisational literature known as the new institutionalism, considered against a backdrop of Westminster accountability, public sector reform and state audit, and informed by source credibility theory. This study is not intended to test or validate theory; rather it uses theory to assist in organising ideas and identifying themes, while remaining open to the possibility that new theory may emerge from the data.

On the methodology dimension, the study has also adopted a low to medium position. This is identifiable in my “anti-positivist” view (Burrell and Morgan, 1979, p. 5) that “the social world is essentially relativistic and can only be understood from the point of view of the individuals who are directly involved in the activities which are to be studied”. It is also discernible in the kinds of research methods deemed appropriate for the gathering of valid evidence (Chua, 1986, p. 604), in the nature of the conclusions drawn from that evidence and the methods used in the process of deriving those conclusions, and in the role of the researcher in the overall research process. One of my motivations for this study was a desire to identify, understand and interpret the complex, interconnected variables of performance audit from the point of view of those most intimately involved in the process. It was felt that insights could be found in what auditors, auditees and politicians expressed in words (written and spoken) about the process of performance audit; about themselves as auditor, auditee or user; and about (and to) each other. This search for understanding and meaning led me to spend a substantial amount of time in the field, collecting data chiefly by participant observation and in-depth interview. This yielded data that is empirically rich in detail and amenable to systematic qualitative analysis, the outcome of which is the set of key themes and critical insights that are presented and discussed later. In terms of my role in the field, I took an ideographic

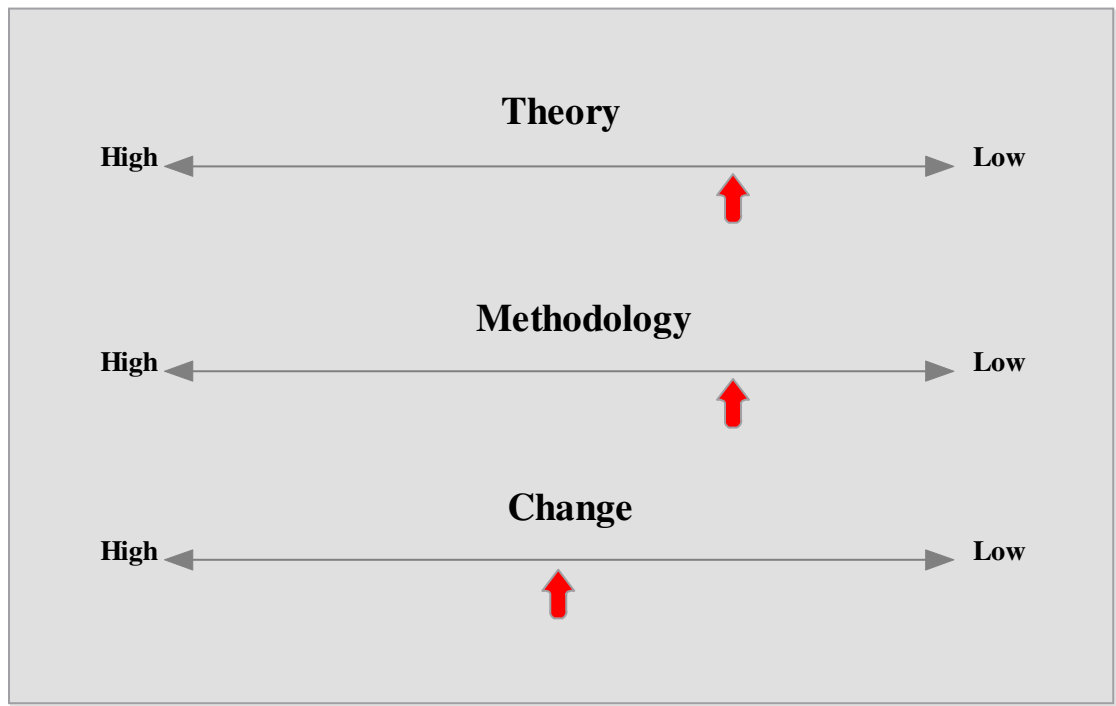
stance, attempting, as much as time, resources and the research site itself permitted, to obtain an insider's view of the subject matter. This means that, through personal involvement and empathetic understanding, I was inevitably part of the process of discovery rather than an independent, objective and detached observer. Nonetheless, I believe my impact on the research field and outcomes was minimal because of my admission as observer rather than active participant.

On the change dimension, the study adopted a medium position. The findings of this study are unlikely to revolutionise the role, function and conduct of performance audit in the Australian public sector, nor are they so intended. The research was not driven by a belief that there is anything fundamentally wrong with the ANAO's performance audit function, nor indeed with performance audit generally, sufficient to warrant radical change in the status quo. It did not set out "particularly to enlighten or emancipate members of the community from coercive and exploitive social relationships" (Jönsson and Macintosh, 1997, p. 370). Nevertheless, prior research (for example, Funnell, 1997; Guthrie and Parker, 1999; English, 2003) as well as the historical aspects of this study (see Chapter 5) demonstrate the vulnerability of the ANAO to pressure from executive government, especially as regards its performance audit function, and raise questions about the Auditor-General's role, *de jure* and *de facto*, in conducting such audits. Further, performance audit is an evolving phenomenon, the history of which is marked by controversy and dissent. These considerations made me receptive to the idea that some change in the status quo may be indicated. This is reflected in the study's findings, which include outcomes that have the potential to effect change in the relationship between the ANAO and its agencies, and in its performance audit processes.



In summary, in terms of the Laughlin's framework, the present study of ANAO performance audit credibility has adopted a low to medium position on the theory and methodology dimensions, and a medium position on the choice dimension (see Figure 2.6). Details of the study's research design are provided later in this chapter.

**Figure 2.6: Dimensions of choice**



### 2.3 Associations and antecedents

This study of ANAO performance audit credibility has two dimensions. The first is an historical dimension that uses archival sources to explore the institutional credibility of ANAO performance audit. Much of the extant literature on ANAO performance audit (for example, Hamburger, 1989; Funnell, 1998; Guthrie and Parker, 1999) fits within the accounting history tradition<sup>11</sup>, providing critical and interpretive insights into its origins and evolution. The present study is also part of this tradition, offering an alternative

<sup>11</sup> For further information on the status of historical research in accounting, see Miller *et al* (1991), Carnegie and Napier (1996), Funnell (1996) and Parker (1999).

interpretation of the history of ANAO performance audit that both complements and extends the literature. In particular, Chapter 5 explores the history of ANAO performance audit through the study's theoretical lens as a process of institutionalisation. Of interest in its own right, the archival research reported in Chapter 5 has another important role in this study, which is to establish an historical context for the field study that constitutes the second dimension of the thesis. The intention of this section is to identify a research home for this empirical research.

The term *field study* is applied to research that deals with studies of phenomena in their natural settings (Atkinson and Shaffir, 1998, p. 41)<sup>12</sup>. Ferreira and Merchant (1992, p. 4) suggest that field studies share the following characteristics. Firstly, the researcher has direct, in-depth contact with organisational participants, particularly in interviews and direct observations of activities, and these contacts provide a primary source of research data. Secondly, the study focuses on real tasks or processes, not situations artificially created by the researcher. Thirdly, the research design is not totally structured but evolves along with the field observations. Fourthly, the presentation of data includes relatively rich, detailed descriptions of organisational contexts and practices. Fifth, and finally, although some of the field research literature is easily read and used by practitioners, the resulting publications are directed mostly towards the academic community (Ferreira and Merchant, 1992, p. 4). The present study arguably fulfils all of Ferreira and Merchant's criteria for recognition as a field study.

To describe the study simply as field research, however, gives only a partial insight into the nature of the understanding that the study seeks to provide. Instead, consistent with

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<sup>12</sup> For further insights into the nature of field research, the literature on which is "burgeoning and eclectic" (Ahrens and Dent, 1998, p. 1), see Tomkins and Groves, 1983a; McKinnon, 1988; Van Maanen, 1988; Ferreira and Merchant, 1992; Ahrens and Dent, 1998; Atkinson and Shaffir, 1998; Baxter and Chua, 1998; and Abernethy *et al*, 1999.

Laughlin's (1995, p. 65) argument, the study needs to be associated with the research tradition with which, through its theoretical and methodological choices, it is most closely aligned. This section, therefore, seeks to associate the empirical aspects of this study with a school of thought that is "more or less agreed to by a community of scholars" (Chua, 2004, p. 258) or, in other words, to establish a "research home" (Glesne, 1999, p. 6) for the study.

The dominant research traditions in accounting are considered in the second half of Laughlin (1995), where he traces their genealogy and maps their characteristics within a 3 x 3 matrix of theoretical and methodological choice. Figure 2.7 reveals nine possible combinations of theoretical and methodological choice (HH, HM, HL, MM, MH, MM, ML, LH, LM and LL), comprising three levels of theory choice (high, medium and low) on the horizontal and three levels of methodological choice on the vertical. The change dimension is handled by means of a code (H, M or L) assigned individually to each school of thought.

**Figure 2.7: Laughlin's characteristics of alternative schools of thought**

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(Laughlin, 1995, Figure 2, p. 70)

Various schools of thought including positivism (HHL), Marxism (HLH) and ethnomethodology (LLL) are included in the cells according to what Laughlin regards as their theoretical and methodological positions, with some cells occupied by more than one school of thought and others remaining empty. For each school, Laughlin maps its lineage back to the philosophies of Comte, Kant, Hegel and Fichte (Laughlin, 1995, pp. 70-7) and shows how these lineages, or streams of thought, impact upon the manner in which the schools are assigned to the matrix.

Thus the Comptean derivatives are all located in the “high” theory and methodology domains with a “low” change emphasis. ... The Kantian/Fichtean alternatives ... are located at the “low” end of both the theory and methodology continuums but again with a “low” change emphasis. ... The Kantian/Hegelian alternatives ... are sandwiched between these two extremes and have varying “high” to “medium” levels of prior theorization in their nature and “low” to “medium” theory-led methodological underpinning (Laughlin, 1995, p. 76).

In a dedicated edition of the journal, *Critical Perspectives in Accounting*, entitled “Debating the Middle Range”, Lowe (2004a) and Arrington (2004) question Laughlin’s ability to map these complex, overlapping streams of philosophical thought and the reductionist nature of the diagrams used to map them. “Put cryptically,” argues Arrington (2004, p. 251), “how does one reduce the history of philosophy so easily?” In his 1995 paper, Laughlin (1995, p. 76) admits that his analysis cannot claim to be anything other than a general and incomplete picture of centuries of thought and that the location of the schools within the matrix provide an inevitable partiality of understanding. For Laughlin (1995, p. 78), this suggests the need for discursive argument for a particular position on the three continuums (which will lead to focusing on one of the many alternative approaches that are available) as the way forward if a researcher does want to defend his/her position and convince others in the academic community of its worth.

The present study, which has been described above as low to medium on the theory and methodology dimensions, appears to fit within the region of Laughlin’s matrix that is bounded by the LL, LM, ML and MM cells. Laughlin envisaged his dimensions as continua and the fact that the present study’s choices may be sited on the margins of cells should not of itself be an issue. It does mean, however, that the task of associating the study narrowly with any one school of thought, as Laughlin (1995, p. 65) recommends, becomes problematic, arguably raising the potential for methodological ambiguity and the “muddling” (Goulding, 1999, p. 859) of research methods. According to Goulding (1999, p. 862):

[t]here are many accepted qualitative, naturalistic, interpretive methods such as ethnography, phenomenology, grounded theory, hermeneutics, ethnoscience, discourse analysis, conceptual description, thematic analysis and constructivism. All have their own philosophies and strategies, but a degree of overlap exists with regard to the sources of data that are collected and used, usually interviews and

observations. However, the main problem occurs when the canons of the method are compromised ...

It is no understatement to say that the researcher's life would be much easier, if less intellectually challenging, if each methodological philosophy was clear cut and defined in such a way as to be able to differentiate between and across them on the basis of a fixed set of principles and procedures. However, to engage in methodological understanding is to enter into a quagmire of contradictions and conflicting philosophies, within as well as across paradigms.

It is not the intention of this study to enter this "quagmire" to any significant extent; the researcher is not a methodologist, nor is this a methodological study. Further, it is argued that Laughlin's matrix, despite its strengths, is too crude and incomplete an instrument to assist in the precise identification of associated schools of thought. Nevertheless, it is broadly indicative of the kinds of schools of thought with which the present study might usefully be associated, albeit partially. These are ethnography, grounded theory and Laughlin's own middle-range thinking approach to research.

### **2.3.1 Ethnography**

Ethnography is a written representation of a culture (Van Maanen, 1988, p. 1), which is achieved through immersion for long periods in the empirical domain, designed to understand and interpret a particular cultural system (Dey 2002, p. 108) and its patterns of human activity (Van Maanen, 1979, p. 539). As a research tradition, however, ethnography is not a homogeneous entity and ethnographic studies can differ in their theoretical emphases and empirical insights (Chua, 1988, p. 62). Jönsson and Macintosh (1997, p. 371), for example, distinguish three versions of ethnography: cognitive anthropology, which deals with how social actors communicate; symbolic interactionism, which focuses on what actors are thinking and how they make their actions meaningful; and ethnomethodology, which considers how actors choose to do what they do, how they

make sense of their everyday activities and how they make themselves accountable for those activities (Burrell and Morgan, 1979, p. 247). According to Jönsson and Macintosh (1997, p. 373):

[e]thnomethodologists are more interested in describing what actors are doing socially than with what they are thinking (interactionists) and how they are communicating (cognitive anthropologists) ... . They are interested in understanding how actors jointly define the character of an event and how they sustain (or change) those meanings. ... The aim is to discover the situated rationality of the actors' mundane, every day social practices in order to describe the sense-assembly equipment they use to construct and to sustain their daily procedures, practices and stocks of social knowledge.

In Laughlin's matrix, ethnomethodology is classed as low on all three dimensions of theory, methodology and choice, as is Blumer's symbolic interactionism, an approach that is associated with grounded theory (for example, Chua, 1988, pp. 60-2; Parker and Roffey, 1997, p. 216; and Goulding, 1999, p. 867). Kuhn's interactionism, with its emphasis on scientific method (Meltzer *et al*, 1975, p. 56), is classed as LML. The matrix is silent on cognitive anthropology but arguably it could also be classed as LLL. Another emerging variant of the ethnographic tradition, and one which takes a medium position on change, is critical ethnography (see for example Power, 1991; Chua, 1995; Jönsson and Macintosh, 1997; Laughlin, 1995; Lodh and Gaffikin, 1997; and Dey, 2002). This is an approach to research that attempts to overcome a perceived shortcoming in more traditional forms of ethnography by combining the ethnographic and critical research traditions. Dey argues, for example, that:

[b]y taking a reflective stance in the empirical domain, ethnographic studies in the accounting literature have consistently failed to assert any influence over the actual design and development of the accounting systems involved. Instead, they usually privilege the systems and structures that constitute the (organisational) culture as it is maintained and controlled by those actors who inhabit it (Dey, 2002, p. 117).

Dey compares two proposals for combining these ethnographic and critical traditions: Laughlin's (1995) middle-range thinking approach to research (see Section 2.3.4) and a two-stage approach proposed by Jönsson and Macintosh (1997). Laughlin's approach is applauded for its "crystallisation" of the ethnographic and critical strands of research but criticised for its use of foundational theory, which Dey (2002, p. 114) argues could "blunt the contextual sensitivity of ethnographic study". Instead, Dey prefers Jönsson and Macintosh's (1997, p. 383) approach, which advocates "an extended research strategy whereby the field narrative is produced and then used to interrogate, reinterpret, and perhaps alter current versions of critical accounting theories". Dey's preference is guided by the "methodological pluralism" of their approach which allows ethnographic and critical strands of accounting research to interact with on another "within the paradigmatic assumptions which both forms of enquiry share". For Dey, an approach like Jönsson and Macintosh's, where critical theories are applied after the ethnographic experience, has the dual advantage of avoiding theoretical closure and potentially informing theory.

Despite their different orientations, the various ethnographic approaches to research noted in this section share a number of features including their common emphasis on "immersion" in the field, their focus on participant observation (the meaning of which is explored later in this chapter), and their reliance on rich description "of the linguistic and non-linguistic practices of the social domain under investigation" (Power, 1991, p. 337). They also have similar methodological limitations (see for example Chua, 1988 and Power, 1991), problems which arguably they share with qualitative methods generally.

For example, they tend to be time intensive and problematic as to multiple interpretations when more than one researcher is involved; underdeveloped in the areas of analysis and interpretation; and problematic as to the meanings attributed to the concepts of reliability, validity and researcher detachment by the scientific community (Covaleski and Dirsmith, 1990, p. 544).



Power (1991, p. 337) also suggests that their reliance on rich description “tends to give ethnographic accounts an anecdotal or (worse) journalistic quality”. There are clearly limitations with the interpretive research tradition and yet, since interest in the approach took hold in the 1980s, ethnography has made a variety of useful contributions to the research literature in accounting. Consider, for example, Ahrens’ (1997) study of management knowledge, which deals with the relationship between accounting and other forms of organisational knowledge and the role of accounting in processes of organisational ordering. Ahrens (1997, pp. 618-20) focuses on the tensions expressed in “accounting talk”, which he argues is a medium for the creative mobilisation of accounting in everyday work. To elaborate these tensions and to demonstrate the usefulness of accounting talk as an analytical perspective, Ahrens contrasts accounting practices in two relatively stable but quite different general contexts, namely German and British brewers. The material for the research was gathered from observations of paired meetings, both formal and informal, between management accountants and sales management. Ahrens argues that in listening to the accounting talk in these exchanges, the ways that accounting is related to other organisational knowledge and the kinds of tensions between accounting and other forms of organisational expertise could be discerned.

A second example of the use of ethnography in accounting research is Power’s (1991) critical study of the examination process for chartered accountants, which involved an initial ethnographic process, in the form of an autobiographical account of Power’s own experiences as an accounting student, to identify themes and then a two-level critique. The first level consists of a “modest” functional critique, focused on the processes and effects of the educational experience, which Power argues contradict the benefits claimed by the professional authorities. The second level is a radical ideological critique,

providing a penetrating analysis of the “systematic distortion” inherent in the professional education process (Power, 1991, pp. 346-7).

A third, and final, example of the use of ethnography in accounting research is Radcliffe’s (1999) Foucauldian-inspired study of performance (efficiency) auditing, which was first discussed in Chapter 1. This gives an ethnographic account of how performance audit is carried out in practice and how auditors come to “know” what is and is not efficient. The research drew on archival sources such as agreed-upon standards plus a detailed ethnographic study of three efficiency audit projects, which Radcliffe (1999, p. 334) argues provided an opportunity to match a specific auditing mandate with an understanding of the means by which that mandate is addressed in practice. Radcliffe suggests that his research fits the ethnomethodological genre in that it

examines aspects of this sensemaking process, and uses field observation of auditors’ communications as a means of exploring thoughts and practices in terms of their role in the social construction of audit technologies (Radcliffe, 1999, p. 338).

A major part of Radcliffe’s approach was to track three audits in real time, reading working papers and draft reports, interviewing audit staff, and engaging in passive observation at planning and other meetings. These multiple methods allowed for triangulation of findings, which Radcliffe (1999, p. 344) argues provides broader and more reliable information than one approach alone. The result is a rich narrative in which Radcliffe explores the themes and insights that were derived from his research. Radcliffe (1999, p. 358) found that in conducting fieldwork his observations “combined to form a powerful representation of how auditors went about their work – one that was different to my own preconceptions, drawn from the literature”. Like Radcliffe (1999), the present study is interested in the phenomenon of performance audit but from a different point of view, for it is not so much about how auditors know what is efficient as how individuals

(auditors, auditees and others) deal with and make sense of performance audit in its everyday practice. Moreover, the methodology used by this study can be distinguished from Radcliffe (1999) in at least three ways: first, its use of a theoretical lens; second, its position with respect to change; and, third, its application of concepts from grounded theory for data analysis and interpretation. Like Radcliffe (1999), this study is ethnographic in its orientation but its distinguishing features suggest it is better described as ethnographically informed.

### **2.3.2 Grounded Theory**

This study is not a grounded study in the sense intended by Glaser and Strauss (1967) or Strauss and Corbin (1998)<sup>13</sup> and, indeed, its use of a theoretical lens would probably preclude its description as grounded research. Nonetheless, the study has borrowed concepts from grounded theory for the analysis and interpretation of its data. Grounded theory is an interpretive research strategy (Covaleski and Dirsmith, 1990), a methodology for generating theory (Parker and Roffey, 1997; Goulding, 1998 and 1999), and an approach to research in which theory is “derived from data, systematically gathered and analyzed through the research process” (Strauss and Corbin, 1998, p. 12). In grounded theory, the researcher begins with a research question, usually<sup>14</sup> without prior

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<sup>13</sup> Grounded theory (see for example Parker and Roffey, 1997; Goulding, 1998 and 1999; Strauss and Corbin, 1998) was developed in the 1960s by two researchers, Glaser and Strauss, each of whom came from quite different philosophical and research traditions. This enabled them to draw on both qualitative and quantitative methodological frameworks. Strauss and Corbin (1998, p. 10) refer to these respectively as the Columbia and Chicago traditions. There has since been a divergence of views between these two researchers concerning the theory’s assumptions and methods, resulting in two versions of the theory. A detailed comparison of these variant methodological positions is given in Parker and Roffey (1997). Unless otherwise indicated, this chapter refers to the approach promoted by Strauss and Corbin (1998).

<sup>14</sup> Despite Parker and Roffey’s (1997, p. 224) apparently unequivocal statement that “the grounded theory researcher refuses prior commitment to any particular pre-existing theory when entering a research site”, Strauss and Corbin (1998, p. 12) in fact admit to the

commitment to a particular theory, and then proceeds to collect and analyse data in alternating sequences, beginning with the first interview or observation, with the aim of building a “creative, grounded, and dense theory” (Strauss and Corbin, 1998, p. 99). The approach involves a “constant interplay between the researcher and the research act” (1998, p. 42), where the researcher, immersed in the data, endeavours to maintain an objective stance while simultaneously developing a sensitivity to the meanings embedded in the data. In this context, Strauss and Corbin (1998, pp. 43-6) describe objectivity as an “openness, a willingness to listen and to “give voice” to respondents ... [i]t means hearing what others have to say, seeing what others do, and representing these as accurately as possible” (at p. 43), and sensitivity as “having insight into, and being able to give meaning to, the events and happenings in data”.

Comparing grounded theory with other research traditions, Parker and Roffey (1997, pp. 216-8) conclude that grounded theory fits either within the “low/low” cell of Laughlin’s matrix or the “low/medium” cell, depending on the version of grounded theory that is adopted. The “low/low” cell includes schools of thought such as pragmatism, symbolic interactionism (as espoused by Blumer) and ethnomethodology, in which there is a low level of prior theorisation and “the individual observer is permitted and encouraged to be free to be involved in the observation process completely uncluttered by theoretical rules and regulations on what is to be seen and how the “seeing” should be undertaken” (Laughlin 1995, p. 67). Parker and Roffey argue that grounded theory is similar to symbolic interactionism, ethnomethodology and pragmatism in their social subjectivity and disagreement with positivism but it can also be distinguished from ethnomethodology and pragmatism in a number of ways. For example, in contrast to

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possibility of so doing in circumstances where “his or her purpose is to elaborate and extend existing theory”.

ethnomethodology, grounded theory has a focus on theory-generation, a capacity to draw on a wide range of data sources, and an ability to deal with one or many cases (compare for example Parker, 2001; Norris, 2002 and Johanson, 1999). Further, according to Parker and Roffey (1997, p. 218), grounded theory is aimed at incorporating the researcher's understandings and attempting "to develop explanatory theoretical frameworks representing structures and processes observed". Parker and Roffey concede, however, that grounded theory studies based on Strauss and Corbin's approach "could arguably be categorized as "medium" on the *research methods* dimension ... because of the researcher's additive contribution to the field members' understanding of their behavioural patterns, and modelling of explanatory, causal theoretical frameworks" (emphasis in the original). In a later study, Parker (2001, pp. 323-4) argues that grounded theory

is characteristic of Laughlin's (1995) 'low/medium' quadrant of middle-range theorizing. That is to say it rates as low on prior theorization, adhering to the grounded theory principle of avoiding pre-commitment to any particular theory, and as medium on the level of methodological specification, given the structured approach to data collection and analysis involved in the Strauss and Corbin (1990) based approach.

Regardless of how grounded theory might be classified in Laughlin's matrix, and irrespective of whether its data derives from observations, interviews, reports or documents, or indeed whether or not the data is qualitative or quantitative in nature, grounded theory research is directed towards "making sense of the data collected and giving them a structure, with a view to determining their meaning and significance for the actors, the researchers and readers" (Parker and Roffey, 1997, p. 214). To achieve this, Strauss and Corbin (1998) advocate a complex, proceduralised, iterative process of coding, analysis, "theoretical sampling" and documentation. Strauss and Corbin (1998,

p. 13) argue that while their procedures help to provide standardisation and rigour, they were designed “not to be followed dogmatically but rather to be used creatively and flexibly by researchers as they deem appropriate”.

Partington (2000, p. 95) describes Strauss and Corbin’s approach as “the state of the art in step-by-step grounded theory technique” but, because of its “bewildering complexity”, questions its ability to be applied in the field in exactly the manner that Strauss and Corbin describe. Notwithstanding his reservations, however, the recent accounting and management literatures contain many examples of research where grounded theory has been applied in the field (for example, Baskerville and Pries-Heje, 1999; Johanson 1999; Siegel, 2000; Parker, 2001 and 2002; Norris, 2002; and Debreceeny *et al*, 2002). Norris (2002), for example, used grounded theory to identify manageable factors that influence the use of activity-based techniques and activity-based information in two disparate British banks. Her reasons for adopting grounded theory principles are given as follows.

The method adopted avoids the prior adoption of a theoretical stance in the belief that doing so may cause valuable insights to be overlooked. Rather, grounded theory principles were adopted so that a rigorous method of analysis would allow theoretical constructs to emerge from the data. Prior research and other knowledge bases had an impact on the theoretical sensitivity ... of the researcher but not explicitly on the design or conduct of the research (Norris, 2002, p. 225).

Norris collected her data using unstructured interviews because this avoided the need to predetermine what information should be sought and allowed probing on matters of importance to the interviewees. The interview data was then coded using Strauss and Corbin’s three-stage coding process, yielding insights into the major concerns of the users and the manageable conditions that are likely to ensure the successful implementation of activity-based techniques and information. Based on her findings, Norris hypothesised

that similar criteria would influence the adoption and continuing use of other management accounting techniques, and management accounting information in general.

A second example of grounded theory research in accounting is Parker (2001 and 2002), a related pair of studies that focus on the planning, control and budgetary processes in the central offices of a large religious, not-for-profit organisation. The 2001 study sought to understand “the nature and degree of complexity of environmental factors driving the planning process, the fundamental nature of the planning process observed, and its degree of apparent (in)formality, flexibility and contingency” (Parker, 2001, p. 322). The 2002 study focused on budgetary control systems and processes. In both studies, the data was collected using unstructured and semi-structured interviews, observations and document examination, and subjected to processes of open, axial and selective coding, using a data collection and analysis approach informed by the grounded theory approach articulated by Strauss and Corbin and summarized in Parker and Roffey (1997). The insights from each study contributed to the development of “an inductively derived micro-theoretical framework” (Parker, 2002, p. 89) of planning and control in the target organisation.

Debreceeny *et al*’s (2002) study of the factors (“inhibitors”) that restrict firms’ participation in electronic commerce provides an interesting contrast to the accounting studies considered thus far. Although the principal research paradigm in the information systems discipline is still positivist, the researchers’ decision to adopt a research approach informed by grounded theory arose from a belief that “the development of theory in the essentially more complex and unstable environment of [electronic commerce] requires sustained analysis involving a wide range of actors” (Debreceeny *et al*, 2002, p. 180). The researchers argue that grounded theory “most accurately describes the adjustment process that ensued as at successive stages of the research we came to a better understanding of

the implications of the data for theory construction”. Data was collected using focus groups to search for and inspect electronic commerce inhibitors, facilitated focus groups to analyse issues, and computer-assisted qualitative data analysis using NVivo software to “understand the directions taken within the computer-facilitated focus groups and to draw out theoretical conclusions” (2002, p. 181). The facilitated focus groups produced a total of 448 “insight statements” (2002, p. 86) which, for Debreceeny *et al*, provided the foundations for theory building. This was then condensed down to a small number of “clusters” of inhibiting factors including participants’ beliefs about branding and business models, the attitudes of senior management, and business to consumer trust.

Grounded theory is a research strategy that is particularly well suited to theory-building in unpredictable research environments (Baskerville and Pries-Heje, 1999, p. 5) but it appears that concepts from grounded theory may also be incorporated into other modes of research and research environments, even though, at a macro level, there may be incompatibilities between approaches. For example, Baskerville and Pries-Heje (1999) merged concepts from grounded theory into an action research project; Hines *et al* (2001) used concepts from grounded theory as a structuring device for analysing directors’ and managers’ experiences with the Financial Reporting Review Panel; and, in her middle-range thinking study, Van Peurse (1999) borrowed a concept from grounded theory to enhance her analysis. In other words, there are precedents in the accounting literature, not only for grounded theory research but also for the use of grounded theory techniques within other approaches to research. The present study’s use of a theoretical lens means that its findings are not strictly grounded in the data in the sense intended by Strauss and Corbin, although concepts from grounded theory did facilitate the organisation and analysis of the data, as well as the identification of some unexpected outcomes.



So far in this section I have argued that the empirical dimension of the present study is not strictly ethnography, despite its immersion in the field, nor is it appropriate to consider it a form of grounded theory research, despite its borrowings from grounded theory for organising and analysing its data. There is another potential research home, however, with which the study might be associated, namely Laughlin's (1995) middle-range thinking approach to research.

### **2.3.3 Middle-range thinking**

In Laughlin (1995), Laughlin argues the case for a medium/medium/medium approach to research, or "middle-range thinking", which he sees as providing a link between the two "polar opposites" (Laughlin, 1995, p. 79) of theoretical and methodological choice: high/high/low (HHL) and low/low/low (LLL). According to Laughlin, the HHL combination (see Table 2.2, which was presented earlier in this chapter) is 'the archetypal model of scientific endeavour assuming a material world, which exists distinct from the perception of users, and which has generalities and patterns waiting to be discovered', while the LLL combination (see Table 2.2, Column 4) is based on the idea that a reality distinct from human perceptions and projections does not exist. Middle-range thinking (see Table 2.2, Column 3) draws on both points of view "while taking a less dismissive perspective on critique and change". From a theoretical perspective, this is an approach which

recognizes a material reality distinct from our interpretations while at the same time does not dismiss the inevitable perceptive bias in models of understanding. It also recognizes that generalizations about reality are possible, even though not guaranteed to exist, yet maintains that these will always be "skeletal" requiring empirical detail to make them meaningful ... to the "middle-range" thinkers the empirical detail is of vital importance. It complements and completes the "skeletal" theory. It may, on occasions, enrich the "skeleton" since it is from empirical investigation that the "skeletal theory" is derived (Laughlin, 1995, p. 81).

Further, in terms of methodology,

the theoretically defined nature of the methods of observation are not abandoned but are designed in such a way as to preserve the accepted subjective variety in perceptual powers. Again the intention is to design a methodology which sets “skeletal” rules for processes of discovery which still allows for variety and diversity in observational practice (Laughlin, 1995, p. 82).

In other words, middle-range thinking is an approach “in which a skeletal framework of both a methodology and theory are “fleshed out” in the context of an empirical situation” (Broadbent and Laughlin, 1997, p. 623). The notion of a skeletal framework was first introduced in Laughlin (1991), when he developed skeletal models of organisational change derived from the literature and amplified through a re-examination of previously-reported case studies. Laughlin makes it clear that none of the empirical examples discussed in his 1991 paper are to be read as a test of the validity of these models. Instead, these are

intentionally pitched at a highly general level allowing both variety and diversity in any empirical outworking. In fact, these models *need* empirical examples to demonstrate and amplify their nature. They can be likened to ‘skeletons’ which need the (empirical) ‘flesh’ to make them meaningful ‘whole beings’. ... The examples, therefore, have been chosen because of their ability to provide the start towards producing rather richer pictures of the models, rather than being chosen as some random examples to see whether the models ‘fit reality’ [emphasis in original] (Laughlin, 1991, p. 210).

Middle-range thinking also takes a medium position on change, in that, according to Laughlin (1995, p. 82), it remains open to the possibility that in certain circumstances “critique and ultimate change” are important. Broadbent and Laughlin (1997, p. 625) argue that the middle range attitude to change is strategic in that it will seek to challenge the status quo, but does not necessarily desire change in all situations.

For Laughlin, German critical theory, particularly as espoused by Habermas, reflects a medium perspective on all three dimensions because Habermas “with his complex theoretical and methodological model ... provides the most complete example of “middle-range” thinking to empirical research in not only accounting but also other social dimensions” (Laughlin, 1995, p. 84). This view is consistent with Laughlin (1987, p. 485), in which he argued that

Habermas’ model has the greatest potential both as a methodological approach for understanding and changing accounting systems design and for investigating social phenomena more widely ... Firstly, Habermas’ methodological approach centres on language and communication as the element which is vital in allowing understanding to occur and non-violent change to happen. ... Secondly, Habermas’ methodology, unlike the other critical theorists’ approaches, does not presume some prior ideal state for the phenomena before an investigation can ensue – the ideal is discovered through the process rather than being part of the defined attributes of the approach formulated at the outset. ... Thirdly, and finally, Habermas specifies clearly the nature and type of the processes which are necessary to generate understanding and change in the phenomena under investigation.

Middle-range thinking has generated considerable debate in the literature (see for example Arrington, 2004; Chua, 2004; Dey, 2002; and Lowe, 2004a and 2004b), including a back-handed compliment from Lowe (2004b, p. 280), in which he refers to middle-range thinking’s “distinctive contribution to the accounting literature ... which was significant around the time it was published”. Among the criticisms of middle-range thinking is Laughlin’s attempt to argue a logical association with Habermas (Arrington, 2004, p. 252; and Chua, 2004, pp. 259-60), and with critical thinking generally. For example, according to Chua (2004, p. 260):

Perhaps, it would have been more defensible not to imply that middle range thinking had its genesis in critical theory, for that apparent parent appears rather like the proverbial red herring. It seems to me that the meaning of Laughlin’s middle derives

solely from its ‘spatial position’ from the constructed alternatives on either side of it (see Laughlin, 1995, Table 1, p. 80). That is, its derivation owes little if anything to critical theory; instead its meaning is attributed solely from it being simultaneously between the ‘high/high/low’ variety on the left and the ‘low/low/low’ variety on the right. Middle-range thinking would then be warranted by its constructed position as the ‘middle’. That’s ok – for it is uncertain that Laughlin’s attempt to manufacture an illustrious lineage accords the argument greater authority or persuasiveness.

A different criticism of middle-range thinking stems from its representation as “informed ethnography” (Broadbent and Laughlin, 1997, p. 627). Indeed, according to Dey (2002, pp. 112-3), while “Laughlin’s (1995) proposal for “middle-range” research begins to crystallise where [the critical and ethnographic] strands of research might be usefully intertwined”, the notion of skeletal theory remains problematic because of inadequate guidance on how skeletal theorising might be handled in the ethnographic research process. He also warns of a risk of “foundational theories being over-emphasised, and directing the eventual outcome”, which he refers to as “theoretical closure”.

Laughlin’s idea of critical ethnography is designed to suit the researcher who is particularly well-versed, and immersed, in critical accounting theories before he or she ventures into the empirical domain. In this scenario, Laughlin’s methodology encourages the researcher’s clear and strongly held theoretical framework to be declared at the earliest opportunity. However, the field study then proceeds in a way which is not “classically” ethnographic, but rather *ethnographically informed*; the emphasis in Laughlin’s analysis is still with the theoretical “lens”, which is likely to be applied to all of the researcher’s experience from the moment he or she enters the research site. So it would seem that no attempt is made to “ground” this theory properly in the research, because the choice of foundational theory has already been made [emphasis in the original] (Dey, 2002, p. 113).

Dey’s understanding of skeletal theorising, however, appears at odds with the meaning that Laughlin himself intended and a rebuttal of Dey’s argument can be inferred in Laughlin (2004, p. 268).

... 'skeletal' theories need the richness of the empirical detail to make them meaningful in particular situations. There are structures that underlie social situations but not ones which fully capture the diversity and detail of these situations. ... Yet such theories are not all-encompassing. They provide a language that allows researchers to interrogate the empirical site being analysed. They guide and structure the way actual organisational settings can be viewed, but they also need the detail from these settings to make these 'skeletons' live. Equally, where the empirical details do not fit the theoretical 'skeleton', the empirical data provides a basis for extending and/or reforming this framework. In this sense the 'skeletal' theory guides the discovery process but in such a way that can be reactive to the 'fit' of the detailed 'flesh' that is being added. ... In middle range thinking ... the empirical detail is as important as the 'skeletal' theory, yet it is viewed in such a way that portrays this detail through the skeletal theoretical terms.

Despite these varied criticisms of Laughlin's approach, middle-range thinking and, in particular, his notion of a skeletal model, has been applied in a number of research settings by Laughlin and his colleagues (for example, Broadbent and Laughlin, 1997; Broadbent *et al*, 2001; and Broadbent and Laughlin, 2003) and other researchers (for example, Richardson *et al*, 1996; Van Peursem *et al*, 1995; and Van Peursem, 1999). Of significance for the institutional context of the present study is that most of these studies deal with public sector issues or the impact of government decisions. The studies illustrate that middle-range thinking can be applied in different ways and in different contexts. Richardson *et al* (1996), for example, take ethnographic data obtained through covert observation and remodel it, after the event, for middle-range analysis using skeletal theory developed in Laughlin (1991). Broadbent and Laughlin (1997), Van Peursem *et al* (1995) and Van Peursem (1999) are grounded in the Habermasian-inspired notion of an iterative, discursive approach to research, in which both researchers and researched are variously involved in a three-stage process of understanding, enlightenment and emancipation. Broadbent *et al*'s (2001) research is of particular interest for its appeal to institutional theory in the development of a skeletal framework, while Broadbent and

Laughlin (2003) deal with other subject matter (accountability, control and legitimation) that is also of relevance to the present study. Their research demonstrates that a study which draws its arguments from an analysis of historical events can also be conceived of as middle-range thinking. The remainder of this section explores each of these studies in more detail in order to provide a sense of the kinds of studies that are portrayed as consistent with a middle-range thinking approach to research.

Richardson *et al* (1996) deals with neither public sector issues nor subject matter that is seemingly of direct relevance to the present study. It does, however, deal with matters of indirect relevance, including processes of change and the impact of the interpretive schemes of individual actors in effecting or resisting change. It also demonstrates how pre-existing theory can be applied, as skeletal theory, to ethnographic data within a middle-range thinking framework. The paper reports a field study of organisational change in a small firm setting, in which data was gathered in a manner consistent with an ethnographic methodology but then remodelled to fit a middle-range thinking approach “in which “skeletal” theoretical models are used to provide vehicles for articulating, rather than deforming, the nature of reality” (Richardson *et al*, 1996, p 10). The authors claim that their research:

combines the benefits of an ethnographically founded study, which provides a rich source of primary data, with the benefits of an informed “middle-range thinking” approach, where, through discourse and analysis and utilizing skeletal theoretical models, the data has been moulded (without distortion) into a demonstration and development of theory (Richardson *et al*, 1996, p. 10).

Richardson *et al*’s skeletal models were taken largely from Laughlin (1991), where organisations are conceptualised as an amalgam of “interpretive schemes”, “design archetypes” and “sub systems”. The four models that Laughlin devised are used by

Richardson *et al* to explore their case study, with the case material “moulded by the models to guide the reader through the process of change which took place in the organization during the period of the research study” (Richardson *et al*, 1996, p. 13). The authors argue (1996, p. 28) that in so doing, their study provides further empirical evidence to enrich the skeletal models.

Organisational change is also the focus of Broadbent and Laughlin (1997), who consider the implementation of new legislative changes in two UK sites (general practitioner practices and schools). The purpose of this study is “to promote sufficient understanding in both the researchers and those members of organizations who are the subject of the research to allow the possibility of developing their own strategies to deal with the changes” (Broadbent and Laughlin, 1997, p. 623). It also provides an opportunity to apply and evaluate middle-range thinking in an empirical setting. For their theoretical framework, Broadbent and Laughlin adopted a “skeletal” theory of organisational change set in the context of societal change. Drawing on Habermasian discourse theory as well as prior research on organisational change (see, for example, Laughlin, 1987; Laughlin, 1991; and Broadbent *et al*, 2001), the authors designed their study as a three-stage discursive process undertaken by two sets of participants: those who carry out the research (the researchers) and those who are the subject of the research (the researched). In the first stage, the researchers gathered insights about organisational processes from the point of view of the participants. Broadbent and Laughlin refer to this approach as “informed ethnography”, arguing that:

The history of the organization is important, as is the current contextual detail. Unstructured and semi-structured interviews and participant observation techniques might also be employed. Unlike the pure ethnographic approaches, the empirical observations are guided by the theoretical framework. The aim is to examine a

particular element or elements, highlighted by the theory (Broadbent and Laughlin, 1997, p. 627).

The researchers then generated “critical theorems” (that is, common understandings of the focus of the research) via a discursive process in which the theoretical framework was used as a basis for framing discussion. Broadbent and Laughlin argue that this gave the researchers “the right to both state their views and challenge another’s”. They saw this as providing “fundamental benchmarks and validity criteria for guiding the processes of discourse”. The second stage, to which the researchers refer as the “stage of enlightenment”, involved discussion of the critical theorems between the researchers and the researched, using a similar discursive process of statement and challenge. In the third and final (“emancipation”) stage, the researched led a final round of discourse, the aim of which was “to allow the organizational members, on the basis of the understandings generated, to select, through the processes of discourse, the strategies which they feel are appropriate” (Broadbent and Laughlin, 1997, p. 628; see also Laughlin, 1987, for a description of the Habermasian roots of this approach). Broadbent and Laughlin describe a number of practical issues in implementing this approach, including, among others, problems in achieving access to organisations and individuals willing to engage in the research process and difficulties in operationalising “ideal” research processes “in the context of many (undefined) sociological, psychological and cognitive issues”. Nevertheless, they found that the three-stage discourse model “proved to be robust and provided a framework for action which we were able to operationalize” (Broadbent and Laughlin, 1997, p. 640).

In a related study of institutional processes, Broadbent *et al* (2001) is focused on the way medical practices resist perceived unwanted changes in accounting and finance arrangements, brought about by the processes of NPM reform. Using “adapted theories



of resistance drawn from Habermas' theoretical model of societal evolution alongside institutional theory", Broadbent *et al* (2001, p. 567) sought to provide an understanding that is relevant not only to the empirical cases described, but also to other instances where organisational resistance is apparent. In other words, they were focused on outcomes in which, in Laughlin's (1995) terms, skeletal generalisations might be possible. In order "[t]o provide a language to understand resistance rather better, and thus provide an amplifying analysis and commentary of the empirics that will be presented" (2001, p. 568), Broadbent *et al* offer a theoretical perspective on Habermas' model of society and then use a concept from institutional theory, isomorphism, to develop the model further. In so doing, they explain how, in Habermas' model of society, our views of the world, our social relationships and ourselves are created out of discourse over time, and that this changing set of understandings forms a "societal lifeworld".

It is from this discursively agreed level of understanding that we create, in societies, separate and distinct systems. These are functional organisations such as those devoted to producing goods and services ... These organisations reflect different aspects of the societal lifeworld at a particular moment in time. Systems, once created, have a potential to become separate and separable from the lifeworld in a complex society. Habermas suggests this causes the need for the creation of steering media. These (for example, money, power and law ...) ensure that systems continue to reflect lifeworld demands (Broadbent *et al*, 2001, p. 568).

Broadbent *et al* argue that Habermas' model provides "a powerful "skeletal" language for an understanding of the way societies organise themselves", which they amplify by proposing that "steering processes may become institutionalised and operationalised through the development of particular institutions", which themselves "develop their own individual lifeworlds (interpretive schemes), steering processes and systems". Organisational lifeworlds, so created, will nest in harmony within the societal lifeworld but when an organisational system moves away from "expressing the societal lifeworld

and resists those steering mechanisms perceived as legitimate”, or the steering media moves away “from expressing the societal lifeworld but the systems remain in concert with that lifeworld”, Broadbent *et al* suggest that resistance in organisations will be apparent. The new institutionalism, which is considered in depth in the following chapter, argues that there are normative, coercive and mimetic forces on organisations to conform to institutional norms. These forces are commonly referred to as the three “pillars” of isomorphism. Broadbent *et al* (2001, p. 569) argue that the amalgamation of this idea with the Habermasian framework “allows an analysis of the dynamics and processes that occur when institutional “pillars” conflict and coincide”. Using this as their skeletal framework, Broadbent *et al* analysed the responses of medical practices to unwanted accounting-led changes, identified a number of resistance strategies and made a critical assessment of the government’s strategy as regards the implementation of accounting and finance-led reform. According to Broadbent *et al* (2001, p. 582) their paper highlights the effectiveness of a synthesis of different and seemingly disparate theoretical perspectives.

Van Peurseem *et al* (1995) and Van Peurseem (1999) demonstrate an interesting, two-stage application of middle-range thinking. The earlier paper provides an analysis of health management performance measures within a skeletal framework offering “a theoretical explanation for what is - or what could be – disclosed” (Van Peurseem *et al*, 1995, p. 34). In so doing, the researchers consciously adopt a view and offer a model that corresponds with Laughlin’s middle-range thinking approach.

Our skeletal framework, once fleshed out with the products of current knowledge, is a tentative effort to match the accountability concepts of concern with measures which may give the reader some indication of their achievement. As such, the project of this investigation may be used to select reporting measures either to focus on an issue of concern (such as efficiency or outcomes), or to produce a more balanced report (Van Peurseem *et al*, 1995, p. 60).

Van Peurseem's (1999) study is represented as the second stage in a three-stage discursive process, similar to that described in Broadbent and Laughlin (1997). In this study, Van Peurseem uses critical theorems formulated from Van Peurseem *et al* (1995) and elsewhere as a basis for offering insights to "relevant participants in the sector" through repeated contact with representatives of New Zealand society (Van Peurseem, 1999, p. 418). For each participant, the contact process comprised an initial in-depth interview followed by three surveys, each of which provided a summary of the previous iteration's findings and posed new questions on points raised. For Van Peurseem, this enabled existing findings to be confirmed and refined, and contributed to the discovery of new concepts. The outcome of this process is a theoretical model, or skeletal framework, for public health sector report content, featuring fundamental and bridging concepts which Van Peurseem describes and defends in detail. Interestingly, an idea from grounded theory was found to be useful in analysing the properties of these concepts.

The fifth, and final, example of the application of Laughlin's middle-range thinking approach to research, particularly as applied to public sector organisations, is Broadbent and Laughlin (2003), who provide an analysis of how the UK government made itself accountable for the introduction of the private finance initiative and how it involved the UK's NAO as a "legitimizing strategy" in this process. For Broadbent and Laughlin (2003, p. 24), this "story" provides "an important empirical amplification and development of the conceptual set of ideas that the paper develops in an interactive manner that befits "middle range thinking"". Their study begins (2003, p. 25) with a broad argument.

Governments have a structural position within society to exercise control. However their structural position requires legitimation and it is for this reason that auditor generals (*sic*) and NAOs are in place. Our argument is that rather than supplying a

critical evaluation of government these bodies can provide legitimacy for the controlling actions of governments.

This argument is developed in subsequent sections of their paper, which explores three conceptual themes: accountability, control and legitimation. Together, these create a conceptual schema, which “informs as well as can be informed [by] our discussion of the [private finance initiative] in the UK” (Broadbent and Laughlin, 2003, p. 36). This is explained further in an endnote:

As indicated in the introduction we are using this conceptual schema in a “middle range” interactive sense. The schema structures the way the empirical data is described but not in a restrictive sense – its usage is intended to enhance the descriptive details. However, the amplification that is being developed through the empirical data can also amplify the theoretical understanding as well. It is this interactive development of theory and understanding of empirical situations which is at the heart of “middle range” thinking. The central tenet of “middle range thinking” is that a conceptual schema is a generalization that goes beyond the particular but its development beyond a certain level is only possible through case studies such as that of the [private finance initiative] (Broadbent and Laughlin, 2003, endnote 8, p. 46).

In the later sections of their paper, Broadbent and Laughlin present a history of the private finance initiative, critically assess its objectives and purposes, and identify and discuss a series of complex themes that are “grounded and amplified” (Broadbent and Laughlin, 2003, p. 44) through the case of that initiative. Their study demonstrates how theoretical concepts, applied within a middle-range thinking framework, can inform, and be informed by, empirical data.

The present study’s empirical research design, which is explored in detail in the next section, is ethnographic in its approach to data collection and influenced by grounded theory research in its method of analysis. Yet the study fits neatly within neither research tradition, firstly because it uses a theoretical lens to make sense of its data, secondly

because of its openness to change in the status quo and, thirdly, because of its disinterest in theory generation. Instead, its chosen theoretical and methodological positions suggest that the study is better located within Laughlin's middle-range thinking approach to research, a suggestion that arguably is supported by the kinds of studies found in the literature that identify themselves with this approach.

## **2.4 Implementing the approach: the study's empirical research design**

It was noted earlier in this chapter that this study of ANAO performance audit credibility has two dimensions: an historical dimension that uses archival sources to establish the institutional credibility of ANAO performance audit and an empirical dimension focused on the perceptions of those most intimately involved in the function at the level of micro-practice. This section is about the latter, empirical dimension of the study, its purpose being to explain the study's qualitative research design, including how its empirically-rich data were identified, gathered and treated. The study used two methods to gather its empirical data, namely in-depth interviews and participant observation<sup>15</sup>. The former method involved interviews with past and present ANAO staff and consultants, staff employed by a major government agency which, for the purposes of this study, I refer to hereafter simply as the Agency<sup>16</sup>, and members of the PAC. The latter method involved my taking part, as an observer, in key stages of an actual performance audit, including planning, evidence-gathering, discussions of findings with the Agency, and parliamentary review. As a participant observer, I gained valuable insights into contemporary

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<sup>15</sup> Documents were also reviewed, including planning documents and issues papers, but these did not contribute significantly to the empirical analysis.

<sup>16</sup> For confidentiality reasons, it is not possible to disclose the identity of the auditee. In analysing the empirical evidence of this study, however, I assumed that the Agency's identity and role in the APS is of little interest. The reasonableness of this assumption is reconsidered in a later chapter.

performance audit practice and witnessed first-hand the strategies and mechanisms employed by stakeholder-participants in dealing with one another.

Opportunities to observe and explore the everyday practice of performance audit (or even financial audit) in the field are rare and it is especially rare to observe state audit processes from planning through to parliamentary review. Some of the few studies that have been so privileged are Keen (1999), Radcliffe (1999), Gendron *et al* (2007) and Sharma (2007), whose work was considered earlier in Chapter 1. Further, no researchers, to my knowledge, have conducted field research in the ANAO. My ability to undertake an ethnographically-informed field study of ANAO performance audit is thus one of the special contributions of this study. In the remaining parts of this section, I explain how access was gained to the study's participants, the interview and participant observations processes used to gather the study's empirically-rich data, and the methods used to analyse that data.

#### **2.4.1 Gaining access to participants**

Gaining access to the study's participants required the express permission of two senior public officials, namely the (then) Auditor-General, Pat Barrett, and the Agency's chief executive officer, who will be referred to from now on as the CEO. Obtaining their approval and support proved to be relatively easy. I met, first, with the Auditor-General to explain the nature and intent of the study and to gain his approval to observe a performance audit, preferably from start to finish. Permission granted, the Auditor-General assisted me to identify an audit for observation from the ANAO's 2003/04 work program<sup>17</sup> and arranged for a member of the team responsible for this audit to act as my

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<sup>17</sup> Confidentiality concerns also preclude the identification of the observed audit. However, the substance of the audit was of no relevance to the main purpose of these observations,

liaison officer for the duration of the study. He also requested his administrative staff to provide me with swipe card access to the ANAO's headquarters in Canberra, Australia, and a user code for accessing the ANAO's intranet. Having selected a suitable audit, I then sought an appointment with the CEO, who was the (then) head of the agency in which the observed audit was to be conducted. The intention of this meeting was to explain the study and obtain approval to conduct interviews with the Agency's staff and observe their interactions with the audit team. The CEO showed considerable interest in the study and immediately granted permission. Thus, as soon as the necessary confidentiality agreements were in place, I was clear to proceed.

The ease with which I gained access to the Auditor-General and his staff is explained by my long-standing association with senior audit officials. This began in 1986, during a period of employment with the Financial Management Improvement Branch of the (then) Department of Finance, where I first met Pat Barrett, then a senior official within that agency. Then, in 1989, I joined the ANAO as a senior director in its Audit Practice and Standards Section, where I met several staff who were later to become executive members of its performance audit division. In 1990, I left the ANAO to take up an academic position with the University of Canberra but maintained contact with my former employer in a number of ways. For example, in 1997, I spent a period of sabbatical leave with the ANAO, studying performance audit and presenting papers to the ANAO, the Office of the Auditor-General of Canada and the (UK) NAO. Meanwhile, from the mid-1990s onwards, I worked alongside Pat Barrett and other senior ANAO officials on various committees of CPA Australia, one of Australia's two leading professional accounting bodies. Then in 2001, I designed a Graduate Certificate in Performance Auditing for the

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which was to gain insights into the conduct of audits and the interactions of audit and auditee staff.

ANAO, which was subsequently delivered, under separate contracts, to both the ANAO and the Agency. Thus, arguably, much of my success in gaining access to the ANAO was due to the mutual trust and respect between researcher and researched, built up over many years of professional contact.

While long-standing professional connections may have enhanced my ability to gain access to the ANAO, this is not the case with the Agency, where the only personal contact I had had with its staff, prior to this study, was through the graduate program in performance audit. Notwithstanding, I had no difficulty in gaining access. This may be explained in part by the graduate certificate connection, as an internal auditor present at my initial meeting with the CEO was also one of the first graduates of that program. It might also be explained, in part, by a letter of introduction provided by a former Deputy Vice-Chancellor of the University of Canberra and a one-time professional associate of the CEO. It is argued, however, that these reasons alone are insufficient to explain the readiness with which the CEO gave her support to the study. Possible alternative explanations, associated with strategic responses to ANAO performance audit, are considered later in this thesis.

#### **2.4.2 In-depth interviews**

In-depth interviews are used extensively in social science research, including qualitative research in accounting and related disciplines. Examples of their use can be found in Covalleski and Dirsmith (1990); Ezzamel *et al* (1994); Caramanis (1998); Willcocks (1998); Beattie *et al* (2004); and Rahaman *et al* (2004). Of particular relevance to the present study are Morin's (2001) research into the influence of VFM audit on public administrators and Van Peursem's (2005) study of the internal audit role. Minichiello *et al* (1990, p. 878) argue that an in-depth interview is a conversation with purpose,



conducted between researcher and informant, which is focused on the informant's perception of self, life and experience. With in-depth interviews, both the informant's perceptions and the natural language in which they are expressed provide the empirical material of the research.

In-depth interviews were held with a total of thirty-one participants (informants) (see Table 2.3), drawn from the ANAO<sup>18</sup>, the Agency, private consulting firms that provide services under contract to the ANAO, and the PAC. Table 2.3 indicates that half of the auditor-participants were ANAO executives at Branch Head level or higher, and the other half, employed at Director or Senior Director level, were members of teams directly engaged in audit fieldwork and analysis. These will be referred to, respectively, as ANAO executives and field auditors. The table also reveals that two thirds of the Agency-participants were involved in managing programs that were currently the subject of an ANAO performance audit, while the rest were members of the Agency's internal audit division. These will be referred to, respectively, as line managers and internal auditors. Table 2.3 reveals that one Agency official and three consultants are former ANAO staff. As regards the PAC participants, one was a member of the party in government and the other of the party in opposition.

Further details of the study's participants, including their code names, are provided at Appendix A.

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<sup>18</sup> At the time of his interview, one participant had recently transferred from the ANAO to a position elsewhere in the APS but returned to the ANAO the following year. For the purposes of this study, he is regarded as one of the auditor-participants.

**Table 2.3: Interview participants**

<b>PARTICI -PANTS</b>	<b>TOTAL</b>	<b>ANAO staff</b>		<b>Agency staff</b>		<b>Others</b>	<b>Former ANAO staff</b>
		<b>ANAO execs</b>	<b>Field auditors</b>	<b>Line managers</b>	<b>Internal auditors</b>		
<b>ANAO staff</b>	14	7	7				n/a
<b>Agency staff</b>	9			6	3		1
<b>ANAO consul- tants</b>	6					6	3
<b>PAC members</b>	2					2	0
<b>TOTAL</b>	31	6	7	6	3	9	4

From the beginning to the end of the interview phase of this study, the topics covered during my conversations with participants evolved as insights on matters of original interest were obtained and new perspectives on performance audit emerged. Moreover, different types of participants (field auditors, Agency staff, ANAO executives, PAC members etc) tended to be interviewed sequentially, as the observed audit progressed from fieldwork to analysis to reporting. Because of this, it is useful to group the thirty-one individuals who took part in this study into three clusters. The first cluster, the members of whom were interviewed between October 2003 and March 2004, consists of audit and Agency staff directly implicated in the audit under observation, as well as staff contemporaneously involved in other ANAO audits. The issues raised with this cluster covered a wide range of topics, including their experiences with and expectations of performance audit, the role they saw performance audit performing now and in the future, the kinds of challenges encountered as auditor or auditee, as the case may be, and the changes to policies, processes, structures, relationships, staffing, training and so on that might enhance its value. In addition, I took the opportunity to explore specific issues that

arose during the participant observation phase of the study (see Section 2.4.3), which commenced prior to the first of these interviews. The empirical material gathered from this cluster created a juxtaposition between audit and Agency staff, and between interview and observational data, from which valuable insights into auditor/auditee relationships could be obtained.

The second cluster of participants, most of whom were interviewed between February and April 2004, comprises ANAO consultants and the Agency's internal auditors. The members of this cluster were similar to each other in that each was familiar with the performance audit process and experienced in dealing with auditees, albeit in different settings. They differed from one another, however, in the focus and strength of their allegiances. Whereas the internal auditors were strongly partisan towards the Agency, the consultants tended to empathise with the ANAO, although typically from a constructively critical position. The topics covered with this cluster were similar to those discussed during the first cluster of interviews except that, given the breadth of their experience with performance audit, I placed special emphasis on the strengths and weaknesses of the ANAO's approach.

The third, and final, cluster of participants, who were interviewed mostly between March and June 2004, consists of members of the ANAO's executive staff and the PAC. This cluster differed from the other two in its members' focus on contemporary audit policy and practice. With these participants, therefore, I took a more strategic approach to the topics covered, commensurate with the respective interests and positions of the participants. Further, informed by the ideas and views expressed by earlier participants, I placed special emphasis on the role and value of ANAO performance audit.

The process by which these interviews were arranged and managed was as follows. Prior to interview, each participant was sent a letter of invitation and a consent form, examples of which are provided at Appendix C. Included in this letter was a list of potential topics, providing an indication of the kinds of matters of interest to this research. Notwithstanding, interview guides were never used during interviews, nor were fixed wording or ordering of questions. Rather, I orchestrated an open conversation around the topics of interest, based on the position, background and interests of the respective participants. The relatively unstructured format of these interviews enabled the participants to discuss their experiences and perceptions of performance audit in their own way. It also gave me latitude to emphasise or deemphasise particular topics and to explore additional lines of enquiry as they emerged from prior interviews and observations. In terms of their duration and recording, most interviews lasted between 45 and 60 minutes and were recorded at the participant's workplace, using a digital recorder for later transcription into electronic text files<sup>19</sup>. The unedited transcripts were then sent to the participants by email for review and, if necessary, amendment and clarification. Both the manager of the observed audit and the Agency's audit liaison officer were interviewed twice, at the beginning and at the end of the fieldwork stage of the audit. For the other participants, I found that a single interview plus participant feedback on the transcripts was sufficient to achieve the objectives of the research.

### **2.4.3 Participant observation**

Another approach to evidence-gathering in the social sciences that has been used in accounting and audit research is participant observation (see, for example Nahapiet, 1988;

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<sup>19</sup> Two interviews were not recorded. Both of these involved senior public officials, one of whom specifically requested that a recorder not be used. For the other, it was my decision not to record, based on an intuition that to do so would distract the participant. For these participants, the data source is my written notes, made during and immediately after the interview.

Ahrens, 1996; Dirsmith *et al*, 1997; Radcliffe, 1999; Richardson *et al*, 1996; Baskerville and Pries-Heje, 1999; Keen, 1999; Kitchener *et al*, 1999; Arnabaldi and Lapsley, 2004; and Parker, 2001, 2002 and 2003). This refers to a method of gathering qualitative data whereby the researcher interacts with the group, organisation or event of interest over an extended period, enabling the researcher to observe from a position of trust. In this way, the participant observer is able to gain information and understanding that is typically unavailable to researchers who are on the “outside looking in” (Vinten, 1994, p. 30). According to Vinten (see also Glesne, 1999, pp. 44-5), the role played by a researcher employing observational techniques fits within a continuum of roles, from complete participation to complete observation. This is illustrated in Figure 2.8.

**Figure 2.8: Participation and observation continuum**

Please see print copy for image



(Vinten, 1994, p. 30)

Complete participation and participation-as-observer refer to roles used, for example, in action research where the researcher becomes a functioning member of the community or group under investigation, working alongside other members of the group in everyday tasks. The distinction between the two roles is that complete participation is a covert role, whereby the group is unaware of the researcher’s true identity or intent, whereas the participation-as-observer role involves the researcher joining the group as both functioning member and observer, with the group’s full knowledge and consent. The third role in the continuum, namely that of observer-as-participant, is where the researcher has only a partial or spasmodic interaction and involvement with the group, maybe

because only part of the group activity is of interest, or because of pragmatic reasons, such as time, cost and access constraints. Glesne (1999, p. 44) perceives the observer-as-participant researcher as having some interaction with the group while, at the same time, preserving a level of distance from the main activity, say, by taking notes of it rather than taking part in it. The fourth role in Vinten's continuum, namely complete observation, is where the researcher avoids interaction with the group entirely, seeking rather to observe the group from the outside. For Vinten (1994, p. 31), complete observation has limited usefulness except where objective recording only is required and, consistent with this view, Glesne (1999, p. 44) argues that the complete observer role is more in keeping with the positivist paradigm.

In the present study, which has its home in the interpretivist paradigm, I played the role of observer-as-participant in the conduct of a real performance audit. This involved, among other things, accompanying a team of ANAO performance auditors as they gathered evidence in the field, both locally and interstate, and attending meetings between senior audit and Agency staff where significant issues and findings were debated. It also involved my attendance at a PAC hearing in 2005, when the observed audit was subjected to parliamentary review. The reasons for seeking to observe an actual audit in the field were threefold: first, to obtain direct experience and, thereby, understanding of everyday audit practice; second, to observe and document the interactions between audit and Agency staff, as well as the strategies and mechanisms they employed in dealing with one another; and, third, to obtain evidence for triangulation with the study's interview and archival data.

The audit that was chosen for observation had several advantages. The first was a pragmatic one, in that its timing coincided with my own timeframe for the study, thus

enabling involvement from planning to parliamentary review. The second was bound up with the quality of the audit team, the members of whom had been specifically recommended by the Auditor-General for their competence and experience. This made it more likely that the practices observed would be regarded by their ANAO peers as current best practice. The third advantage was the nature of its subject matter, in that the audit dealt with a controversial topic in a high-profile agency, thus increasing the likelihood of its eventual selection for review by the PAC. This subsequently proved to be the case, allowing the audit to be followed over its entire lifecycle. It was noted earlier in this chapter that this ability to follow a performance audit from start to finish is one of the special characteristics of the present study. The fourth, and last, advantage of the chosen audit was that ongoing tensions between the ANAO and the Agency over the outcomes of an earlier audit enhanced the prospects of the observed audit being a source of evidence regarding the responses of auditees and others to the institutional pressures of ANAO performance audit and, in return, the pressures brought to bear on ANAO staff.

I arranged and conducted the participant observation phase of the study in the following manner. In July, 2003, I met with the audit manager of the chosen audit and his executive director to discuss the audit work plan and timetable and then, a couple of weeks later, with the audit manager, again, and his team to discuss progress to-date. Although the audit was still at an early planning stage, the team was able to provide a set of planning documents for review. Meanwhile, I met with the Agency's internal audit staff<sup>20</sup> to discuss the Agency's preparations for the coming audit. Then, in mid-September, I attended the entry interview for the observed audit. Present at that meeting were senior ANAO and Agency officials, the audit team, the Agency's senior internal audit staff and

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<sup>20</sup> In the Agency, it is the internal audit section that provides the first point of contact for the ANAO for both its financial and performance audit activities.

the head office manager directly responsible for administering the program that was the subject of the observed audit. The entry interview marked the beginning of the fieldwork stage of the audit and it was also the first occasion on which I joined both audit and Agency staff as an observer-participant. Thereafter, from October 2003 to February 2004, I accompanied the audit team, whenever practicable, on its fieldwork activities. This led me to observe audit activities in Agency offices located across Australia, including major cities (Canberra, Darwin, Hobart, Melbourne and Perth) and regional centres (Goulburn, Queanbeyan and Wagga Wagga). As part of these activities, the audit team conducted group and individual interviews with Agency staff, spoke with external stakeholders, observed Agency processes, attended demonstrations of computer-based tools and inspected facilities and documents. Next, in late January 2004, towards the end of the fieldwork stage of the audit, the team's attention turned to the preparation of issues papers in which the preliminary findings of the audit were identified. Then, in early March, I attended two significant, albeit informal, meetings at which these findings were discussed: first, between the audit team and ANAO executives; and second, between the team and the Agency official with overall responsibility for the audited program. This resulted in certain amendments to the issues papers prior to their presentation at the formal exit interview<sup>21</sup>, which occurred towards the end of March. The exit interview was the last audit activity that I observed prior to the finalisation of the audit report and its tabling in the parliament during the latter half of 2004. Lastly, I observed a PAC hearing on the audit, which was held in 2005.

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<sup>21</sup> In financial statement audits, the exit interview normally refers to a meeting held between auditor and client at the conclusion of the audit, immediately prior to the signing of the audit report. With ANAO performance audits, however, the exit interview is a meeting held with the auditee at the conclusion of the fieldwork stage of the audit but before the preparation and tabling of the audit report. Such interviews provide an opportunity for the audit team to present provisional findings and for the auditee to correct misunderstandings and misinterpretations.



Overall, the participant observation stage of the study involved about ninety hours of audit-related activities and events, encompassing approximately forty individually-recorded sessions (see Appendix B), during each of which I noted my impressions in spiral-bound notebooks for later transcription into electronic text files. My notes recorded, among other things, the purpose of the activity, how it was structured, who was present, the language used by auditors when describing their role, requesting information and exploring issues, and the language and actions of Agency staff in response. I also noted my physical location with respect to audit and Agency staff, and the interactions, if any, between myself and others. In my role as observer-as-participant, I interacted frequently with both audit and Agency staff during the course of the audit, yet endeavoured to preserve a distance during the observed activities themselves. This type of interaction is arguably compatible with the role envisaged by Glesne (1999, p. 44) for observer-as-participant researchers. For example, Glesne describes an experience as an observer-as-participant as follows:

When another graduate student and I assisted Alan Peshkin in a study of a fundamentalist Christian school (Peshkin 1986), we interacted with students and teachers, but for a semester we were primarily observers, taking notes from the back of a classroom. We did not teach; give advice; or assist teachers, students, or administrators (Glesne, 1999, p. 44).

In the present study, the type of interaction that occurred between researcher and researched is revealed in the following comments, taken from my observation notes, which show that the participants were clearly aware of my presence and my purpose for being there.

Arrived alone at the ... office ... at 9 am. Introduced myself to [Agency] staff. L<sup>22</sup> said that P had told him about me and he'd said 'there is a god!' ... I was then introduced (as someone auditing the auditors) and asked to give a brief overview of my research (Observation #2, 18 September 2003).

I introduced myself and what I'm doing - commented on why I'm taking notes etc - some laughter about PhD topic - amusement about auditors being audited (Observation #7, 1 October 2003).

A introduces me [N says he had assumed I was a scribe] and explains my purpose. N says 'revenge at last!' (Observation #8, 2 October 2003).

I think P\* in particular is interested in feedback from me on the team performance but I keep pointing out that at this stage I'm just taking notes; I haven't sought to analyse the data yet. I mention that my data is getting richer. We draw parallels between what I'm doing and what they're doing (Observation #14, 20 October 2003).

I ask P\* to introduce me .. he apologises - introduces the team and me - some discussion (of a positive nature) on my research. L shows interest in my final report (Observation #18, 27 October 2003).

Yet, although interactions obviously occurred, during the observed activities I endeavoured to maintain a physical and emotional distance between researcher and researched. My incentives for so doing were twofold: first, to minimise my impact on the activities and the individuals engaged in them and, second, to encourage the researched to perceive me as a disinterested but not uninterested observer. This was necessary to sustain the trust of both audit and Agency staff, who were distrustful of each other, as shown in Chapter 7. To this end, I located myself physically on the periphery of the activity under observation, maintained silence unless spoken to, and avoided eye

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<sup>22</sup> In this thesis, extracts taken from my observation notes will refer to individual Agency staff and audit team members by the first letter of their given name. In addition, audit team members will be distinguished from Agency staff by an asterisk (\*). These measures are necessary to ensure the anonymity of the participants while at the same time identifying their affiliations.

contact. While it is impossible to prove that I had limited impact on the audit, the following set of comments, taken from my notes, suggest that this was probably the case.

I believe that my presence had no impact on the process. No questions were directed at me during the meeting and no one appeared to take any notice of me (Observation #1, 15 September 2003).

After the initial introduction, I did not feel that I influenced the discussions in any way. I sat on the periphery and was not aware of anyone looking my way. Audit and [Agency] staff seemed absorbed in their own issues and concerns (Observation #3, 29 September 2003).

I continue to be accepted apparently without question by [Agency] staff - treated with politeness and marginal interest but the staff seem much more intent on the auditors. No one has questioned my taking notes. I make it clear that I'm not interested in details of [the Agency] - I refuse copies of documents, I sit away from any screens, I don't seek to observe interviews held with [Agency] customers (Observation #14, 20 October 2003).

Once again, I see no evidence that I'm influencing the process. Slight interest was shown in my presence prior to the meeting commencing (by Dave) and at the end after P\* introduced me. But during the interview process, attention appeared to be focused exclusively on P\* and his interaction with [Agency] staff. Indeed, the fact that I was not formally introduced to the [Agency] staff until the end of the interview, and the fact that N\* was not introduced either, suggests that I would have been taken to be just another member of the audit team, with a responsibility for note-taking (Observation #18, 27 October 2003).

The Agency staff are so bound up with the audit process that I believe I am of no import to them (Observation #23, 30 October 2003).

The meeting began with introductions (I was overlooked) ... I am sitting away from the table on a chair by the wall - out of the main view. No one seems to take much notice of me, although G looks across at me from time to time. M and P smiled at me initially but now take no notice of me (Observation #39, 26 March 2004).

#### **2.4.4 Data analysis**

It was noted earlier that the present study is not intended to generate grounded theories about performance audit but rather to establish its credibility in a specific state audit jurisdiction. Nevertheless, like Morin (2001 and 2003; see also Baskerville and Priej-Heje, 1999; Parker, 2001 and 2002; Norris, 2002; Beattie *et al*, 2004), in my approach to analysing the study's empirical data I was strongly influenced by Strauss and Corbin's (1998) techniques and procedures for developing grounded theory. Of particular interest was their three-stage process of open, axial and selective coding. Open coding is where raw concepts contained in the data are identified, broken down, examined, compared, conceptualised and categorised (Morin, 2001, p. 106); axial coding, where related concepts are linked to researcher-specified categories that seek to explain related ideas; and selective coding, where major categories are integrated and refined to create a larger theoretical scheme (Strauss and Corbin, 1998, p. 143). A similar coding process was used in this study, not to develop theory but rather to identify themes by which the credibility of ANAO performance audit might be established.

Before it could be analysed, however, the data needed to be prepared for coding. Soon after each interview or observation was conducted, the digital recording or written notes, as the case may be, were transcribed into an electronic text file. A header, explanatory material (time, date, location etc) and sub-headings were then inserted into each file. For the interview transcripts, the sub-headings served, firstly, to distinguish between the actors involved, namely the researcher and the researched, and, secondly, to identify the broad areas covered during each interview. For the observation transcripts, the sub-headings helped to discriminate between the words and actions of the auditors, on the one hand, and their audit subjects, on the other. Next, the text files were entered into a QSR

NVivo<sup>23</sup> database, which was the technology used in this study to store, manage, code and scrutinise the empirical data, and assigned to one of two sets<sup>24</sup>, according to their data source (interview or observation). Each interview file was also assigned to a second set (ANAO, Agency, consultant or PAC) to reflect the participant's organisational affiliation. Meanwhile, every interview participant was coded to an individual node<sup>25</sup>, to which attributes denoting the participant's type (for example, ANAO executive), age group, gender and length of service were attached. Once these preparations were complete, the data was ready for content analysis using Strauss and Corbin's three-stage coding approach, the outcomes of which are considered in Chapters 6 and 7.

## 2.5 Summary and conclusion

Laughlin's argument, as interpreted in this study, is that empirical researchers need first to make clear their chosen positions on three continuums of choice, namely theory, methodology and change, and then second, to make a deliberate association with the school of thought that best represents those choices. This chapter has provided a discursive argument for a particular position on each of Laughlin's three dimensions of theoretical and methodological choice, which comprise a low to medium position for theory and methodology and a medium position for change. It has explored also three schools of thought, ethnography, grounded theory and Laughlin's middle-range thinking, and evaluated their potential as "homes" for the research. It was found that while the

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<sup>23</sup> QSR NVivo is a software tool for managing qualitative data and facilitating its coding and analysis. Details of the software can be obtained from <http://www.qsrinternational.com>. See also Richards (1999) or Gibbs (2002).

<sup>24</sup> In NVivo, a set is a named collection of documents or nodes that NVivo handles as a unity for the purpose of data management and analysis (Richards, 1999, p. 213). As sets are virtual collections, consisting of pointers to the actual documents and nodes, it is possible for one document or node to be a member of many sets.

<sup>25</sup> In NVivo, a node is an object that represents an idea, theory, dimension, characteristic etc of the data (Richards, 1999, p. 210).

empirical dimension of this study bears many of the hallmarks of ethnography, such as its immersion in the field, its appeal to a theoretical lens to organise and make sense of its data suggests that it is better described as ethnographically-informed. With this and its openness to change in the status quo, it is argued that this study of ANAO performance audit credibility is most closely associated with an emerging, eclectic genre of research known as middle-range thinking.

The interpretive design adopted for this study creates a number of limitations, not least of which is its inability to generalise its results, in a positivist sense, to other state audit jurisdictions. Nevertheless, a study of a mature site like the ANAO can be expected to yield insights, analogies and lessons that are broadly applicable to other jurisdictions, and which amplify or extend existing knowledge. I recognise that its use of a theoretical lens could be regarded by some interpretive researchers as a limitation because of the propensity for pre-defined theory to bias the researcher's understanding of the culture under examination. Yet the use of concepts from source credibility theory and the new institutionalism are arguably plausible and sensible for understanding the subject matter of this thesis, which deals with the credibility of a state audit institution.

The next logical step in this thesis is to explain the study's theoretical lens. The core concepts of source credibility theory, namely auditor independence, technical competence and audit usefulness, were discussed in Chapter 1 when the notion of audit credibility was first defined, and will not be considered further until needed in Chapter 6 for organising the study's empirical findings. However, the new institutionalism, which has not yet been examined, is the subject matter of Chapter 3.

## **CHAPTER 3**

# **THE THEORETICAL LENS: INSIGHTS FROM THE NEW INSTITUTIONALISM**

*Individuals may form communities, but it is institutions alone that can create a nation  
(Benjamin, Earl of Beaconsfield, Disraeli, 1804 - 1881).*

### **3.1 Introduction**

In the previous chapter, which considered the theoretical and methodological positions of this study, I argued that a degree of prior theorisation in the form of a theoretical lens could usefully be employed in this study of performance audit credibility, not to validate or test theory in a positivist sense but rather to reduce complexity and make sense of the study's empirically-rich data. I also argued that insights from the new institutionalism, informed as necessary by source credibility theory, could provide an applicable lens. With relevant notions from source credibility theory already considered in Chapter 2, the intention of this chapter is to explain the new institutionalism and identify the aspects of the theory that have particular significance for this study.

The new institutionalism refers to a collection of theories about institutions that are considered to be widely applicable across many kinds of organisations (Dillard *et al*, 2004, p. 508). It emerged in the literatures of various academic disciplines, including politics and organisational theory (Peters, 1999; Scott, 2001), in the late 1970s and early 1980s. In the organisational literature, for example, it is associated with the early works of Meyer and Rowan (1977), Zucker (1977) and DiMaggio and Powell (1983)<sup>26</sup> and, in the political literature, with that of March and Olsen (1984). Inspired by, and adapted from, the institutional theories of pioneer scholars such as Herbert Spencer, William Graham Sumner, Karl Marx, Emile Durkheim, Max Weber, Talcott Parsons and George Herbert Mead (Scott, 2001, pp. 1-19)<sup>27</sup>, the new institutionalism is concerned with the influence of society's institutions on the way organisations are structured and behave and, conversely, on the way organisations and individuals shape their institutional environments. In other words, social values, norms and expectations provide an institutional perspective on organisational behaviour by emphasising the ways in which actions are structured and order made possible by shared rule-based systems (DiMaggio and Powell, 1991a, p.11). The new institutionalism holds that organisations operate within organisational fields that are marked with common values, norms, rules, myths and traditions, and where constituent members are characterised by a salient need for social legitimacy (Fogarty *et al*, 1997, p. 178). The notion of legitimacy is central to institutional theory (Deegan, 2002, p. 293) and pervades the literature on the new institutionalism (see for example Meyer and Rowan, 1991; Fogarty, 1996; Fogarty *et al*, 1997; and Scott, 2001). The new institutionalism is also about institutionalisation, the

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<sup>26</sup> Meyer and Rowan (1977), Zucker (1977), DiMaggio and Powell (1983) and other important contributions to the literature were later revised and republished in DiMaggio and Powell (1991a). It is their revised works that are cited in this thesis.

<sup>27</sup> For an overview of “old” vs “new” institutionalism and the different versions of neoinstitutionalism, see DiMaggio and Powell (1991a), Peters (1999) and Scott (2001).



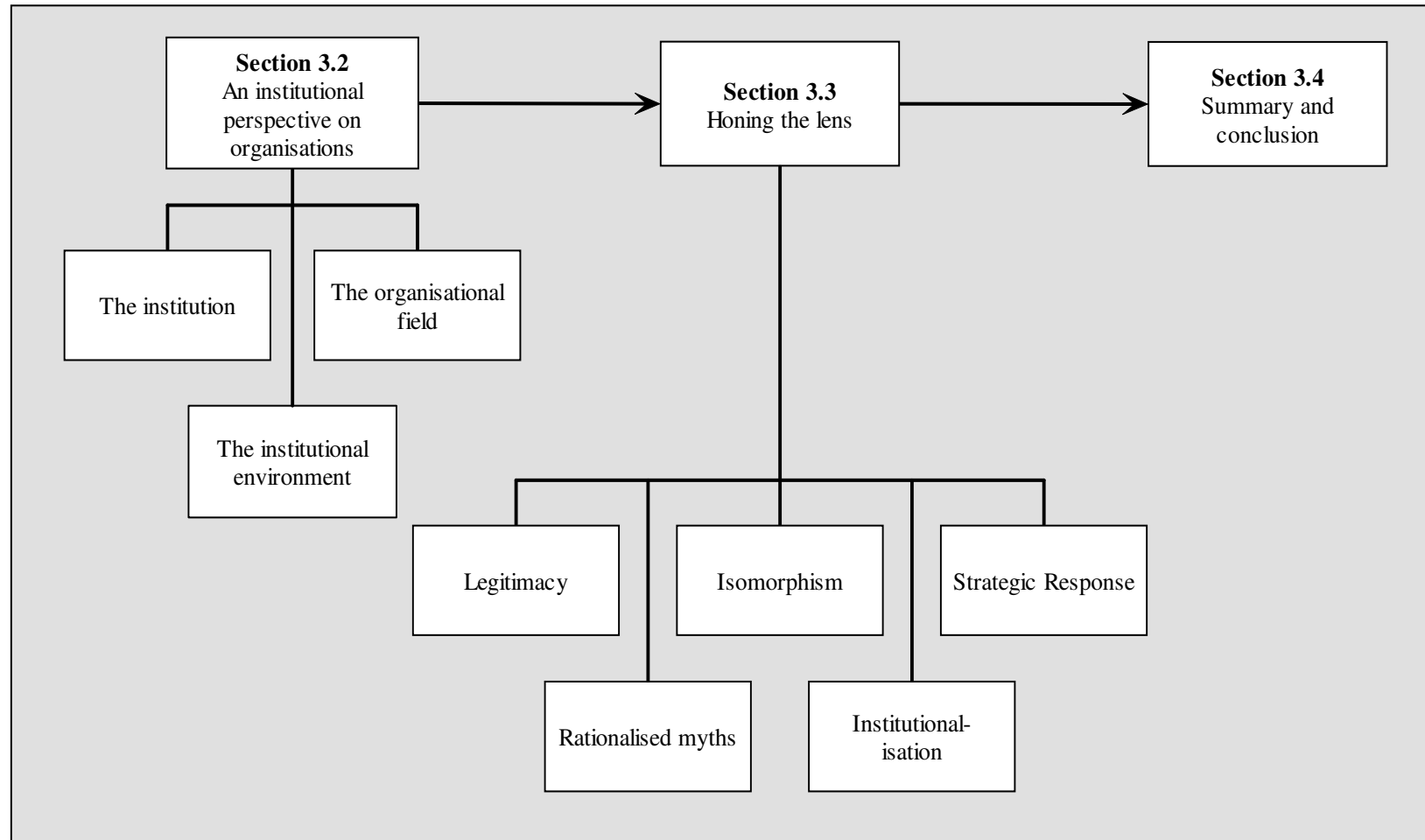
processes by which individual actors transmit what is socially-defined as real (Zucker, 1991) and social patterns or orders are established (Jepperson, 1991), and about the strategic responses made by organisations and individuals to pressures to conform to socially-defined norms and processes (Meyer and Rowan 1991; Oliver, 1991 and 1997).

Over the past decade or so, many studies in the accounting literature (for example, Carpenter and Feroz, 1992 and 2001; Fogarty, 1992a, 1992b and 1996; Carpenter and Dirsmith, 1993; Covalleski *et al*, 1993; Bealing *et al*, 1996; Fogarty *et al*, 1997; Rollins and Bremser, 1997; Dirsmith *et al*, 1997; Seal, 1999; Hines, *et al* 2001; Covalleski *et al*, 2003; Rahaman *et al*, 2004; and Touron, 2005) have demonstrated the value of the new institutionalism for analysing institutions and their socially-constructed processes in areas such as public sector accounting, financial regulation and professional practice. ANAO performance audit is also a socially-constructed process, located within the political institution of state audit, which, in turn, is part of the overarching, macro-institution of Australia's public accountability framework. This suggests that ANAO performance audit is also amenable to analysis through the lens of the new institutionalism.

Chapter 3, the themes of which are represented in Figure 3.1, has a single purpose, namely to identify and explain the concepts from the new institutionalism that are to serve as the theoretical lens of this study. The chapter begins with an institutional perspective on organisations, embracing general notions of the institution, the institutional environment and the organisational field. These are of special relevance to Chapter 4, which focuses on Australia's modern public accountability framework of which ANAO performance audit forms an integral part. Then, in Section 3.3, the chapter identifies and explains five institutional concepts, namely legitimacy, rationalised myths, isomorphism, institutionalisation and strategic response, all of which have potential for use as a

theoretical lens, either individually or in combination with one another. The chapter concludes in Section 3.4 with a review of the chapter and a summary of its findings.

**Figure 3.1: The themes of Chapter 3**



## 3.2 An institutional perspective on organisations

### 3.2.1 The institution

In the previous section, I argued that the new institutionalism refers to a collection of theories about institutions. What is meant by the term *institution* however, is not altogether clear. This is largely due to the varied approaches to institutional phenomena taken in different academic disciplines, including economics, sociology, management, history, law and political science (Peters, 1999; Scott, 2001), each of which is either vague about the concept or professes its own, subtly different view of what defines one. Consider, for example, DiMaggio and Powell's (1991a, p. 8) distinction between the economist's conception of institution and that of the organisational theorist.

As we move from the new institutionalism in economics and public choice to the new institutionalism in regime theory and organization theory, the term *institution* takes on a different meaning. In the former approaches, institutions are the products of human design, the outcomes of purposive actions by instrumentally oriented individuals. But in the latter, while institutions are certainly the result of human activity, they are not necessarily the products of conscious design [emphasis in the original].

Nevertheless, institutions are typically seen as collections of rules, customs and values. Calhoun's (2002) Dictionary of the Social Sciences, for example, refers to institutions as "[d]eeply embedded patterns of social practices or norms that play a significant role in the organization of society". In the literature, too (for example, March and Olsen 1989; Jepperson 1991; Barley and Tolbert 1997; Peters 1999; Scott, 2001; and Dillard *et al*, 2004), institutions are portrayed as rule-based systems and patterns of human behaviour. For example, March and Olsen (1989, pp. 21-2) argue that

[i]nstitutions have a repertoire of procedures, and they use rules to select among them. The rules may be imposed and enforced by direct coercion and political or

organizational authority, or they may be part of a code of appropriate behavior that is learned and internalized through socialization or education.

In the present study, the term *institution* has the meaning that DiMaggio and Powell (1991a) associate with organisational theory. In other words, institutions are viewed as social constructs that are the result of human activity but not necessarily human design. It is also accepted that they include formal administrative entities that are subject to regulatory processes as well as social norms and values, and deeply-entrenched and taken-for-granted customs and rituals. Hence, the parliament, the courts, state audit agencies, universities, trade unions, professions and other organisations associated with bureaucratised, administrative structures are examples of institutions, as are more amorphous social constructs such as the law, the market, accounting, and professionalism. Further, consistent with Dillard *et al*'s (2004, p. 513) conception of a hierarchy of institutional influence, it is argued that institutions can be viewed at different levels of abstraction, from a broadly-defined, macro level, such as the legal, health, education or political systems, to a more narrowly-defined, micro level focused on groups of organisations, such as “brand name” auditors (Rollins and Bremser, 1997; see also Carpenter and Dirsmith, 1993; and Carpenter and Feroz, 2001), or on discrete organisations or organisational units, like the Securities and Exchange Commission (Bealing, 1994; Bealing *et al*, 1996; and Rollins and Bremser, 1997), the Financial Accounting Standards Board (Fogarty, 1992a and 1992b), the Bureau of Consumer Services (Ritti and Silver, 1986), and the Salvation Army (Irvine, 1999). In summary, an institution is recognised to exist, irrespective of its scope and form, if it exhibits the following characteristics. Firstly, it is a resilient custom, law or practice with both symbolic and practical significance for a given social group. Secondly, its set of social values, rules and customs influences the way constituent members organise themselves

and make decisions. Thirdly, its values, rules and customs are taken for granted by its constituents as rational, correct and commonsensical and enforced by extrinsic (for example, legal) or intrinsic (for example, cultural) mechanisms. Fourth, and finally, its values, rules and customs constrain behaviour but also define, support and empower its constituents, and support and sustain its own reproduction.

There is arguably nothing controversial in the view that state audit is an institution within the meaning of the term given in this section. In Australia, the Auditor-General and the ANAO form part of a long-standing tradition of state audit that has both symbolic and practical significance for Australia's Westminster-style system of public accountability, from which it derives its legitimacy, a notion that is explored later in this chapter. Yet, in my view, ANAO performance audit can also be construed as an institution in its own right, albeit one of relatively recent origin, its claim to legitimacy based on its association with the traditions and values of state audit and its nexus with the symbols and practices of NPM. My reasons for distinguishing ANAO performance audit as a separate institution are twofold. The first reason is that, although ANAO performance audit is administratively part of the ANAO, derives its regulatory legitimacy from the same legislation as the ANAO, and gains much of its social legitimacy from its association with the ANAO, it has its own structures, goals, work practices, standards, skill sets, statutory provisions, reporting frameworks and social expectations that set it apart from the Auditor-General's financial audit responsibilities. The second reason is that ANAO performance audit is vulnerable to two potentially competing sources of institutional pressure: one bound up with the myths and traditions of Westminster accountability that it shares with its financial audit counterpart and the other, with the values and ideologies of public sector reform that provide the rationale for its existence (see Chapter 5).

The cross-disciplinary character of the new institutionalism has created a rich but sometimes confusing body of theory, exemplified in the various disciplinary conceptions of the term *institution*, noted in this section. Even within a particular disciplinary area, however, there can be ambiguity and confusion. Jepperson (1991, p. 161, note 14), for example, argues that, in the organisational literature, the term *environment* “[s]ometimes ... invokes context imagery (for example, fields of organizations), other times macro (hierarchical ordering) imagery (for example, references to law), sometimes both (for example, ‘the institutional environment’)”. The aim of the next two sections is to reduce this ambiguity by distinguishing and explaining the notions of the institutional environment and the organisational field.

### **3.2.2 The institutional environment**

Dillard *et al* (2004, p. 508) argue that the new institutionalism is applicable in varying degrees to all organisations because of the regulatory and governance structures under which they operate. Nonetheless, the theory is particularly useful for analysing organisations, such as political and professional organisations, that operate in highly institutionalised environments. These are typically characterised by a lack of measurable outcome that summarises organisational performance (Fogarty, 1996, p. 246) and/or are subject to bureaucratic controls unrelated to work-unit performance (Gupta *et al*, 1994, p. 277). The link between political/professional organisations and institutionalised environments is well-established in the literature, both theoretically (see for example DiMaggio and Powell, 1991b; Meyer and Rowan, 1991; and Scott and Meyer, 1991), and empirically (see for example Covalleski and Dirsmith, 1988a; Gupta, Dirsmith and Fogarty, 1994; Dirsmith *et al*, 2000; Carpenter and Feroz, 2001, who have analysed government budgeting, accounting and audit processes from an institutional perspective). The new institutionalism maintains that the survival of such organisations is influenced

more by their institutional environments than by technical pressures and demands. An understanding of the term *institutional environment* requires an appreciation of the so-called technical/institutional dichotomy (Scott and Meyer, 1991; Orrú *et al*, 1991; and Oliver, 1997), which is essentially about the perspective chosen by the analyst in explaining organisational phenomena. Scott and Meyer (1991, p. 123) argue that technical and institutional environments are distinguished as follows:

*technical* environments are those in which a product or service is produced and exchanged in a market such that organizations are rewarded for effective and efficient control of their production systems. ...

*Institutional* environments are ... characterized by the elaboration of rules and requirements to which individual organizations must conform if they are to receive support and legitimacy [emphasis in the original].

Technical and institutional perspectives on organisations, however, include both convergent and divergent assumptions (Oliver, 1991, pp. 146-7). They are alike, for example, in seeing organisational survival as dependent on responsiveness to external demands and expectations, and in their desire for stability, predictability and legitimacy. They differ, however, in their assumptions about, among other things, the loci of external power (rule-makers or markets), the relative significance of conforming to rules and norms compared with managing scarce resources, and the strategic responses of organisations in dealing with the interdependencies in their environments. New institutionalists recognise that organisations are exposed to pressures from both technical and institutional environments but argue that the relative strengths of those pressures differ widely among different types of organisations, and so, too, do their determinants of survival. According to Powell (1991, p. 184),

[t]he survival of some organizations depends more on achieving high standards of efficient internal production, while the survival of other organizations requires



conformity to the normative codes of the relational networks in which they are embedded.

Some organisations, like those in the construction or manufacturing sectors, operate predominately in strongly technical environments and for these organisations, survival depends mainly on technical efficiency and effectiveness in production and inter-organisational exchange. Thus, their focus is primarily on the competitive pressures in the organisational environment that motivate them to enhance their efficiency and control. For example, in her empirical study of the influence of institutional and task environment relationships in the Canadian construction industry, Oliver (1997, p. 116) found that task environment relations were significantly more critical to an organisation's success than institutional relations. The quality of an organisation's relations to task environment constituents who controlled the critical factors of economic production for the industry (that is, land, labour, capital and supplies) was more strongly associated with profitability and productivity than the quality of an organisation's relations to institutional constituents in the environment (that is, regulatory authorities, institutional inspectors, the industry's professional association and state agents governing the industry).

On the other side of the technical/institutional divide are organisations, such as schools, hospitals and welfare organisations, which operate in highly institutionalised environments (Meyer and Rowan, 1991, p. 53). According to Oliver (1997, p. 102),

the key constituents predicted to influence organizations in institutional environments are not purveyors of scarce production factors but representatives of the state and, to a lesser extent, professional associations that define or enforce the public or collective rules governing an organization's actions.

For such organisations, success and survival depend primarily on their ability to conform to institutional norms, values and rules, or to what Meyer and Rowan (1991) refer to

variously as institutionalising, rationalised, or rational institutional myths. Powell (1991, p. 184), however, cautions against an overly simplistic view that technical and institutional sectors are dichotomous alternatives. He argues that organisations that are subject to market forces are also subject to micro and macro-level institutional arrangements that provide platforms for economic exchange, while organisations operating in highly institutionalised environments, such as government agencies, can face output controls associated with a technical environment. Meyer and Rowan (1991, pp. 54-5), in fact, conceive of organisations as operating along a continuum, at one end of which is located “production” organisations under strong output controls and at the other end, organisations “whose success depends on the confidence and stability achieved by isomorphism with institutional rules”. This idea is elaborated in Scott and Meyer (1991), who argue: firstly, that organisations operating in relatively strong institutional environments, such as schools and churches, will attempt to decouple their production activities from their organisational structures, and will succeed to the extent they are able to acquire personnel and establish structural arrangements that conform to established norms; secondly, that organisations operating in relatively strong technical environments, such as manufacturers, will focus on their production activities and measure their success in accordance with the efficiency and effectiveness with which they achieve their objectives; and third and finally, that organisations that face highly developed technical and institutional pressures, such as banks, are likely to exhibit complex administrative arrangements and experience high levels of internal conflict as they attempt to meet the demands of both environments.

The environment is a macro-level concept which helps identify, in broad terms, the factors that determine organisational success and survival. Further, it is the level at which economic and political forces articulate, institute and legitimate society’s most widely-

held and taken-for-granted social norms and practices (Dillard *et al*, 2004, pp. 512-3). In this study of ANAO performance audit credibility, the environment of interest is the highly institutionalised environment of Australia's Westminster-style system of responsible government and the notion of public accountability that underpins it. For Dillard *et al*, the economic and political forces that create an institutional environment are the source of a "recursively cascading" hierarchy of influence (see Figure 3.2) on organisational fields and individual organisations. It is at the level of the organisational field, however, that specific structures and practices are created and evolve, consistent with societal values and norms, and provide "the context for the institutions confronted by and embedded in organizations" (Dillard *et al*, 2004, p. 513).

**Figure 3.2: Hierarchy of institutional influence**

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(Adapted from Dillard *et al*, 2004, Figure 1, p. 512)

### 3.2.3 The organisational field

The notion of the organisational field introduces a more detailed level of analysis (DiMaggio and Powell, 1991b, p. 64; Scott, 1991, p. 174), which for Scott (1991, pp. 173-4) is particularly suited to the study of institutional processes. The term *organisational field* refers to “those organizations which, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products” (DiMaggio and Powell, 1991b, pp. 64-5; see also Fogarty *et al*, 1997, p. 178). It focuses on the linkages and differentiations within specific communities of organisations and actors, their interconnections (Scott, 1991, pp. 173-4), interdependencies and power relations (Powell, 1991, p. 191; Brint and Karabel, 1991, p. 355), their structural and cultural commonalities (Jepperson, 1991, p. 145), their origins and transformations (Brint and Karabel, 1991, p. 355), and the set of social values, norms, traditions and expectations that influence how constituent members organise themselves and make decisions. Fogarty (1996, p. 247) argues that the notion of the organisational field stresses the “bridge” between society and organisations, whereas, for Scott (2001, p. 43), its contribution to institutional analysis is in helping to bound the environment in which institutional processes operate.

Seal’s (1999) study of compulsory competitive tendering in UK local government provides an example of how organisational fields have been used in organisational analysis. Seal conceptualises local authorities as part of a field comprising central government (represented by the Department of the Environment), the Audit Commission, auditors, local taxpayers and elected members, professional bodies, private contractors, direct service organisations and, of course, the local authorities themselves. Seal’s organisational field model, reproduced in Figure 3.3, also illustrates resource and information flows among constituent members. According to Seal (1999, pp. 314-5), the

notion of the organisational field helps to visualise local authorities as part of a complex field in which an interplay of normative, coercive and competitive forces operate either to support or resist cultural change in local government accounting practices.

**Figure 3.3: The organisational field of a UK agency facing competitive tendering**

Please see print copy for image



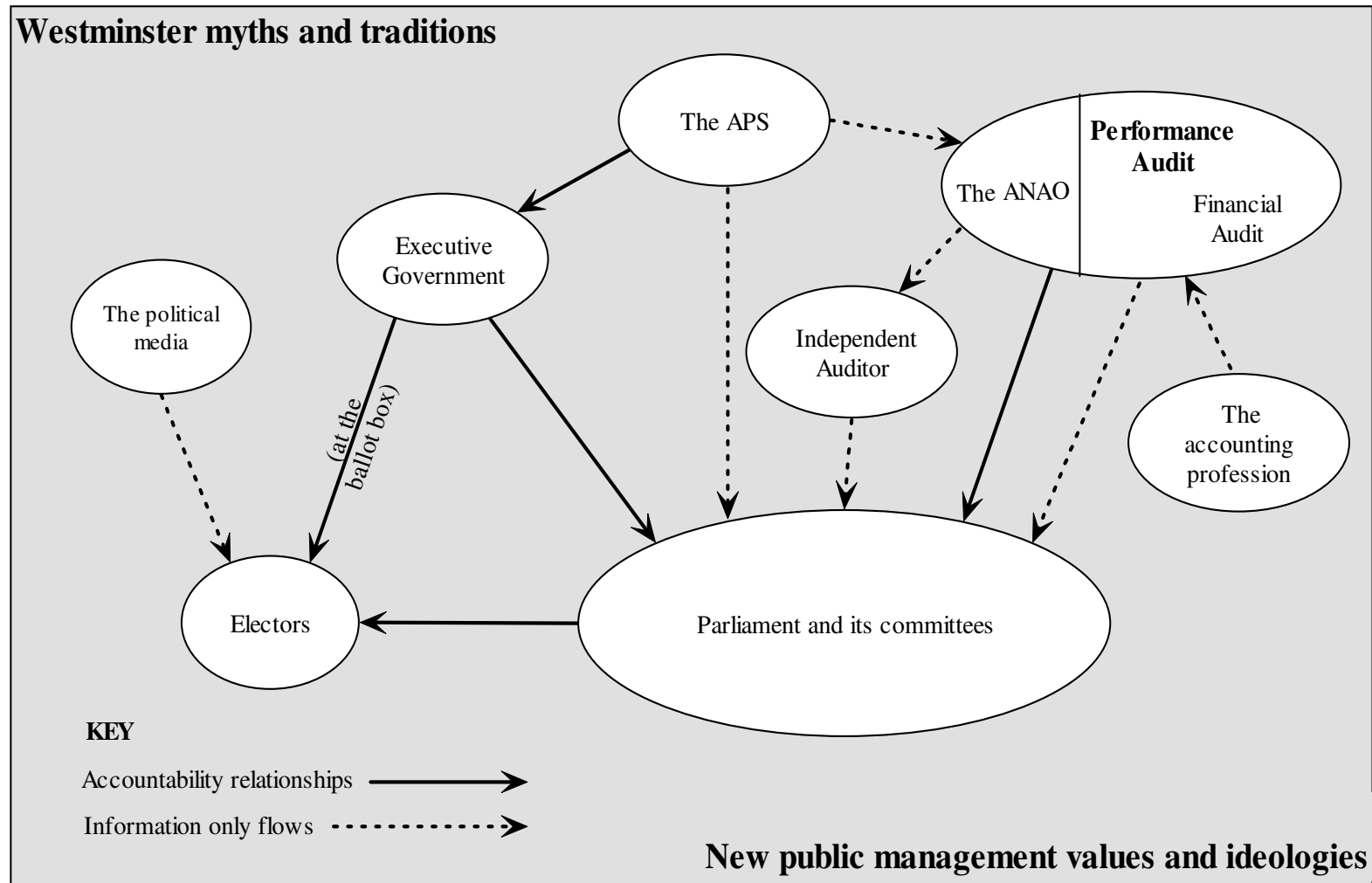
(Seal, 1999, Figure 1, p. 314)

Another example of the use of fields in organisational analysis is provided by Brint and Karabel (1991), who use the notion as a starting point in their study of the transformation of American two-year community colleges from liberal arts to vocational training institutions. They conceptualised the organisational field as an “arena of power relations” (Brint and Karabel, 1991, p. 355) in which privileged actors hold positions of advantage over others and are able thereby to influence the rate and direction of institutional change. Support for this view was found in the case of the two-year college, whose development was shaped by its structural subordination to the dominant, four-year colleges. However, their study also found that less dominant colleges were able to pursue their own

distinctive interests, albeit under “conditions of powerful constraint” imposed by the dominant members of the field. Brint and Karabel (1991, p. 356) argue that where organisations function within arenas of power relations, both the pursuit of organisational interests and the role of group struggle needs to be taken into account in analysing the shaping of organisational structures and policies.

The organisational field of ANAO performance audit (see Figure 3.4), which functions within the institutional environment of Australia’s political system, comprises a range of actors that influence or are influenced by the function, including the parliament, executive government, the APS, the PAC and the ANAO itself. For reasons that are considered later, in Chapter 4, these are the actors of most interest to this study. Figure 3.4 portrays ANAO performance audit as both part of the ANAO and distinguishable from it, consistent with the view expressed earlier that it is an institution in its own right.

Figure 3.4: The organisational field of ANAO performance audit



### **3.3 Honing the lens**

While an appreciation of institutions, institutional environments and organisational fields assists in understanding the central argument of the new institutionalism, the theory also embraces a range of institutional concepts that apply at the organisational level of Dillard *et al*'s (2004, p. 512) cascading levels of institutional influence, five of which (legitimacy, rationalised myths, isomorphism, institutionalisation and strategic response) arguably have potential to assist in exploring the central theme of this thesis. The purpose of this section is to examine each of these concepts in turn and reflect on its application to this study. Because of its crucial role in sustaining an institutional pattern of relations (Hybels, 1995, p. 241), the section begins with the notion of legitimacy.

#### **3.3.1 Legitimacy**

According to Suchman (1995, p. 571), legitimacy is the anchor-point of a “vast theoretical apparatus” which addresses the normative and cognitive forces that constrain, empower and otherwise impact upon organisational actors, whether in technical or institutional environments. The breadth of the concept is exemplified in the literature where it has been used, from an institutional perspective, to explore issues of justification and resource dependency and analyse shared meanings (for example, Preston *et al*, 1995; Suchman, 1995; and Arnabaldi and Lapsley, 2004), and to explain power relationships and mechanisms of domination, steerage and control (for example, Covalleski and Dirsmith, 1991; Brown, 1998; Deegan, 2002; Deegan *et al*, 2002; and Broadbent and Laughlin, 2003). Further, the literature has dealt with legitimacy both as an aspect of theory and as a theory in its own right (Deegan, 2002; Deegan *et al*, 2002; and Llewellyn, 2003). With such an array of interpretations and applications, it is not surprising that the concept has been described as “abstract and indefinite” (Hybels, 1995, p. 241). Nevertheless, despite its lack of clarity, new institutionalists agree that organisations depend, independent of



their technical performance, on legitimacy for their survival. Legitimacy is a status conferred on organisations by others because their actions are seen to be “desirable, proper, or appropriate within some socially-constructed system of norms, values, beliefs, and definitions” (Suchman, 1994, p. 574; see also Scott, 2001, p. 59) and, once conferred, conjures up an aura of social acceptability and credibility (Scott, 2001, p. 58). Legitimacy is not itself a resource but it gives access to resources (Meyer and Rowan, 1991, p. 53; Fogarty *et al*, 1997, p. 178; and Scott, 2001, p. 58). Thus, for organisations in institutional environments, legitimacy is the conduit to economic well-being and survival.

Suchman (1995, pp. 577 ff.) distinguishes three general forms of legitimacy: pragmatic legitimacy, moral legitimacy and cognitive legitimacy. Pragmatic legitimacy refers to the self-interested behaviour of those with whom the organisation deals, either directly in transactional exchanges or indirectly through its influence on, and responsiveness to, wider issues (for example, the adoption of professional standards) in which its audience (for example, a professional body) may have an interest. For Suchman (1995, p. 578), pragmatic legitimacy is a multi-faceted form of legitimacy that encompasses: first, exchange legitimacy in which “support for an organizational policy [is] based on that policy’s expected value”; second, influence legitimacy, where “constituents support the organization ... because they see it as being responsive to their larger interests”, and third and finally, dispositional legitimacy, in which constituents are disposed to grant legitimacy to those organisations that are believed to exhibit values such as honesty, wisdom and trustworthiness. Suchman argues that organisations that seek dispositional legitimacy portray themselves as having the individual’s “best interests at heart”. An example of dispositional legitimacy might be where a manufacturer uses a well-known and patently fit sports icon to promote a breakfast cereal. Arguably, trade unions and

professional organisations also portray themselves as dispositionally legitimate, at least from the point of view of their respective members.

The second of Suchman's forms of legitimacy, moral legitimacy, deals with the perception that the organisation behaves in a manner that promotes "societal welfare, as defined by the audience's socially-constructed value system" (Suchman, 1995, p. 579), reflecting a "prosocial logic" that distinguishes it from the narrow self-interest of pragmatic legitimacy. The kinds of organisations which fit within this category include those which are perceived to be environmentally responsible or leaders in implementing equal opportunity programs or significant contributors to charitable causes or advocates of social welfare and human rights or public watchdogs like auditors-general. Suchman identifies four areas that might be evaluated in terms of moral legitimacy: outputs and consequences, or consequential legitimacy; techniques and procedures, or procedural legitimacy; categories and structures, or structural legitimacy; and (perhaps) leaders and representatives, or personal legitimacy. The third form of legitimacy proposed by Suchman, cognitive legitimacy, refers to the organisation's perceived plausibility and comprehensibility. In contrast to the other forms, an organisation achieves cognitive legitimacy when the organisation itself and its activities are taken for granted and accepted as inevitable.

Like Suchman, Scott (2001, pp. 60-1) identifies three forms of legitimacy, although in Scott's view, each form is not only different from, but potentially in conflict with, the other forms. The first is regulatory legitimacy, where legitimate organisations are those that have legal or quasi-legal authority. The second is normative legitimacy which, like Suchman's moral legitimacy, is morally governed. The incentives for organisations to seek normative legitimacy include intrinsic rewards, such as empowerment, stability and

a sense of moral fitness, and extrinsic rewards, such as material resources. The third and final form is cultural-cognitive legitimacy, where legitimacy is obtained through the adoption of a recognisable, common frame of reference. Similar to Suchman's cognitive legitimacy, the cultural-cognitive form rests on "preconscious, taken-for-granted understandings" (Scott, 2001, p. 61). Because it is based on deeply-held, widely-shared and resilient views and assumptions, the notion of cognitive, or cultural-cognitive, legitimacy suggests that organisational change may be problematic for some organisations, in the absence of triggers or events that disturb these deep-seated understandings. Whatever its character, however, legitimacy remains a status conferred, consciously or unconsciously, on organisations by "significant others" (Scott 2001, p. 59) and is therefore vulnerable to changing social actors and expectations, and the challenges of competing expectations. This suggests that there is an ongoing need for organisations to explain, justify and make plausible their actions, or, in other words, to legitimate those actions.

In the institutional literature, legitimation typically refers to the processes by which legitimacy is established and maintained (Scott, 1991, pp. 169-70; see also Scott, 2001, p. 59), but it has also been used to mean the role of one organisation in legitimating the actions of another (Laughlin and Broadbent, 2003; see also Brunsson, 1990; Covalleski *et al*, 1993; Davie, 2000). Legitimation involves the adaptation to and/or identification with social values and commonly-held symbols and rituals, as described in Bealing's (1994) study of the SEC's regulatory actions, or the successful manipulation of social values and expectations by organisational field leaders, who are in a position to influence the norms, values, and structures of the organisations in their field (Galaskiewicz, 1991, p. 309). This is exemplified in Carpenter and Dirsmith's (1993) study of the role of the auditing profession in redefining its jurisdictional domain. Further, leading members can

themselves be legitimated by their capacity to influence others. Evidence of this is reported in Bealing *et al* (1996), who refer to it as a “second-order effect”.

Normally the institutional theory literature proposes that organizations adopt institutionalized structures in order to gain legitimacy and societal support ... [but] ... it appears that in order for the SEC as an organization to become legitimated, institutionalized and taken-for-granted as part of the regulatory arena, it had to take part in building up and, in turn institutionalizing a framework of social control applied to the accounting profession as well as reporting entities (Bealing *et al*, 1996, pp. 334-5).

These different perspectives on legitimation are reflected in Deegan (2002, pp. 296-7), who argues that there are three methods by which organisations might deal with challenges to their legitimacy. First, they can adapt their outputs, goals and operational methods to conform to prevailing perceptions of what is legitimate. This is akin to the notion of isomorphism, which is considered later in this chapter. Second, they can seek to alter society’s understanding of what is legitimate so that it aligns with their own practices, outputs and values. This assumes that the organisation is in a position to dominate constituent members of its organisational field, either directly or through alliances with powerful friends. Third and finally, organisations can attempt to identify themselves with socially-recognised symbols, values and rituals, using formal structures that may be decoupled from their everyday work practices. In other words, organisations can seek legitimacy through association (or apparent association) with an applicable set of rationalised myths.

Chapter 5 demonstrates that it took many years for ANAO performance audit to become “legitimated, institutionalized and taken-for-granted” (Bealing *et al*, 1996, p. 335) but that it now possesses several forms of legitimacy which help to ensure its survival. Firstly, it has regulatory legitimacy by virtue of its enabling legislation (that is, the *Auditor-General*

*Act 1997*). Secondly, it has pragmatic legitimacy, conferred on it by successive executive governments of different political persuasions, for whom there are benefits in being seen to support the function and the “new accountabilities” (see Chapter 4) that it embodies. Thirdly, it has moral legitimacy arising from the parliament’s belief in its societal value as an instrument of parliamentary scrutiny and control. Fourthly, it has cognitive legitimacy, achieved during the 1990s with the absorption of NPM norms and values into the mindset of the APS, and as such is now taken-for-granted as a plausible (that is, credible) and comprehensible state audit institution. This study is focused on the credibility of ANAO performance audit rather than its social legitimacy but the two notions are interrelated, especially in terms of cognitive legitimacy. In Chapter 1, however, I argue that a credible audit function is one that complies with the audit credibility criteria of auditor independence, technical competence and audit usefulness. Through the lens of the new institutionalism, these criteria are the norms and values of audit or, in other words, its rationalised myths.

### **3.3.2 Rationalised myths**

For organisations that operate in institutional environments, the new institutionalism holds that rationalised myths rather than technical imperatives govern how organisations view the world as it is and ought to be. Moreover, rationalised myths determine what is regarded as acceptable behaviour at both the organisational and individual level. According to Meyer and Rowan (1991, p. 45), the term *rationalised myths* refers to impersonal, rule-like prescriptions that define what is “appropriate, rational, and modern” for organisational structures and practices. These prescriptions are *rationalised* because they take the shape of rules and *myths* because they embody widely-shared beliefs (Touron, 2005, p. 852). Examples of rationalised myths considered in the literature include: the use of budgetary processes in the administration of public resources

(Covaleski and Dirsmith, 1988b); the conduct of enforcement actions by regulatory bodies (Bealing, 1994; Bealing *et al*, 1996); the use of market-based controls and accounting practices in public sector organisations, including performance measurement (Brignall and Modell, 2000), Generally Accepted Accounting Principles (GAAP) (Carpenter and Feroz, 1992; Touron, 2005), case-mix accounting (Covaleski *et al*, 1993), cost accounting (Ansari and Euske, 1987) and the performance of taken-for-granted work practices by the (US) General Accountability Office (GAO) (Dirsmith *et al*, 2000).

Rationalised myths reflect society's values, norms, rules, beliefs and taken-for-granted assumptions (Barley and Tolbert, 1997, p. 93), and are recreated in organisations as symbols, rituals, ceremonies, stories, drama (March and Olsen 1984, p. 744) and sense-making devices (Modell, 2004, p. 40). They encompass routines, conventions, roles, strategies, organisational forms, technologies, legal requirements and other patterns of human behaviour as well as the "beliefs, paradigms, codes, cultures, and knowledge that surround, support, elaborate, and contradict those roles and routines" (March and Olsen 1989, p. 22). Rationalised myths both constrain and empower institutionalised organisations (see, for example, Scott, 1991, p. 50) by defining accepted patterns of behaviour (Barley and Tolbert, 1997, p. 96; Jepperson, 1991, p. 147; Friedland and Alford, 1991, p. 243; and Scott, 2001, p. 49) and enabling ongoing, dynamic interchanges among actors, within and between organisations. Further, rationalised myths embedded in an organisation's structures and practices are said to provide a defence against charges of irrationality and negligence (Carpenter and Feroz, 1992, p. 621; see also Meyer and Rowan, 1991, pp. 44-5). Yet, however deeply embedded they may be, rationalised myths are not imposed on organisations in perpetuity nor are organisations "passive actors ... imprinted by cultural templates" (Scott, 1991, p. 170). First, all myths are mutable: they can emerge, decline and be displaced by new myths in response to events in the

institutional environment or perceived crises within the organisation (Modell, 2004, p. 40). Modell's (2004) analysis of the emergence and decline of performance measurement myths in the UK public sector exemplifies the changing and sometimes cyclical nature of rationalised myths. Second, tension and conflict can arise when myths originate from multiple sources (Meyer and Rowan, 1991, p. 44; Scott, 1991, p. 167; Hines *et al*, 2001, p. 54), such as law, politics and accounting. In this situation, organisational design becomes a matter of choice and compromise among competing expectations. For example, in their archival study of the SEC, Bealing *et al* (1996, p. 334) observe that:

the process of institutionalizing the SEC and its emerging rule systems during the formative years was profoundly political and reflective of the intense and conflicting expectations of regulatory practice by such constituents as the New Deal liberals in the President's office, Congress, the press and the regulatees.

The third reason for not considering organisations as passive actors is the existence of differentiated and competitive institutional environments (Scott, 1991, p. 170) which suggests that some organisations can choose and perpetuate myths in accordance with their own best interests. In other words, consistent with Deegan's second method of legitimisation, some organisations are able to engage in myth-building. Examples of myth-building behaviour are provided by Hines *et al* (2001, pp. 63-5), who identify five myths perpetuated by the (UK) Financial Reporting Review Panel as part of its legitimisation process; Carruthers (1995, p. 324), who argues that, in the case of accounting, organisations have been "very active in shaping rationalized myths to get the ones they want"; and Carpenter and Dirsmith (1993), who associate myth-building with the legitimisation of audit sampling. Thus, while there is little argument among new institutionalists about the significance of rationalised myths for organisations,

[t]he newest of the new institutionalism recognizes that rationalized myths, and formal structure, are not always imposed on an organization by its external environment. Frequently, organizations play an active role in constructing rationalized myths, playing them off against each other, or shaping how they are applied in particular instances. Organizations are not only granted legitimacy; sometimes they go out and get it (Carruthers, 1995, p. 324).

Yet, whether myth-maker or myth-taker, an organisation remains dependent on legitimacy for its survival and legitimacy, in turn, depends on its ability to convince others that its structures and practices conform to society's rationalised myths. In this study of ANAO performance audit credibility, the rationalised myths of interest are the credibility criteria of auditor independence, technical competence and audit usefulness. Thus, when viewed through the theoretical lens of the new institutionalism, the central focus of this study is the conformance, or isomorphism, of ANAO performance audit with its rationalised myths.

### **3.3.3 Isomorphism**

One method by which an institution can convince others that it conforms with society's rationalised myths is through isomorphism, which refers to the tendency among members of organisational fields to "gravitate towards similarity" (Fogarty, 1992a, p. 136) in their structures and practices "as they respond to similar regulatory and normative pressures, or as they copy structures adopted by successful organizations under conditions of uncertainty" (Orrù *et al*, 1991, p. 362). The term *isomorphism* denotes a convergence of appearance and practice among organisations due to pressures from within to achieve and maintain legitimacy, and from without to conform to society's rationalised myths. It has also been used to refer to the convergence of norms, values and traditions within organisations, which Fogarty (1992a) refers to as organisational socialisation. DiMaggio and Powell (1991b, pp. 67-74) distinguish three isomorphic mechanisms, which they refer



to as coercive, mimetic and normative isomorphism. Coercive isomorphism results from pressures (formal and informal; overt and covert) exerted on the organisation by the external constituents on which it depends for resources, or for legal or professional authority. In the accounting literature, for example, the World Bank (Rahaman *et al*, 2004), the SEC (Rollins and Bremser, 1997; Carpenter and Feroz, 1992; Fogarty, 1992b), the (US) Congress (Carpenter and Feroz, 2001); Standard and Poor's rating service (Carpenter and Feroz, 1992); the (UK) Audit Commission (Seal 1999), state agencies and professional bodies (Fogarty, 1992b and 1996), and even private organisations through their input to advisory panels and boards (Fogarty, 1992b), have all been identified as sources of coercion. Coercive isomorphism is evident within organisations, too. It can be found in the processes that compel individuals towards performance that is congruent with organisational goals and which impose "a division of labor that shapes individuals' emergent conceptions of the organization" (Fogarty, 1992a, p. 133). Fogarty argues that this occurs through the combined effect of economic, bureaucratic and legitimation pressures. Further, an institution can be simultaneously a target and a source of coercive pressure. See, for example, Dirsmith *et al*'s (2000) study of the GAO, which they contend (2000, p. 533) is subject to Congress but is also a source of isomorphic pressure on government agencies.

The second of DiMaggio and Powell's isomorphic mechanisms, mimetic isomorphism, is a process of imitation and modelling, in which the organisation models itself voluntarily on others that it perceives to be legitimate or successful. According to Fogarty (1992b, p. 334; see also DiMaggio and Powell, 1991b, p. 69), mimetic isomorphism provides a low-cost, low-risk method of dealing with uncertainty, particularly when organisational technologies are poorly understood, goals are ambiguous or the environment creates symbolic uncertainty. DiMaggio and Powell (1991b, p. 69) argue that mimetic

isomorphism can be seen in the so-called “innovations” or management rituals that proliferate in organisations from time to time, such as quality circles. By following management fads and fashions (Carruthers 1995, p. 317), organisations seek legitimacy through the symbols and rituals of management improvement. Many studies (for example, Covalleski and Dirsmith, 1990; Fligstein, 1991; Carpenter and Feroz, 1992; Fogarty, 1992b; Touron, 2005) have found evidence of mimetic isomorphism in institutional settings, sometimes in company with other forms of isomorphic pressure. For example, in their study of the introduction of GAAP into New York State, Carpenter and Feroz (1992, p. 637) found that:

the coercive isomorphic process to adopt GAAP was influenced by the social process of mimetic isomorphism that was in progress at the national level when New York decided to adopt GAAP for external financial reporting. Moreover, we believe that New York State adopting GAAP served to legitimate the use of GAAP across governmental contexts intensifying the mimetic process which began with New York City’s adoption of GAAP.

The third form of isomorphism proposed by DiMaggio and Powell (1991b, p. 70) is normative isomorphism. This is said to stem primarily from professionalisation, which, according to Larson (1977, pp. 49-52), means the collective struggle of members of an occupation to define the conditions and methods of their work, to control ‘the production of producers’ and to establish a cognitive base and legitimation for their occupational autonomy. In addition to their capacity to exercise a direct, coercive influence on organisational practice, professions can also exert isomorphic pressure indirectly through professional and occupational norms of practice and behaviour, and by creating qualifications frameworks that are bound up with such norms. These are then developed and disseminated through formal education and training networks that span organisations, as well as the filtering of personnel for specific professional attributes. Consequently:

[t]o the extent managers and key staff are drawn from the same universities and filtered on a common set of attributes, they will tend to view problems in a similar fashion, see the same policies, procedures, and structures as normatively sanctioned and legitimated, and approach decisions in much the same way (DiMaggio and Powell, 1991b, p. 72).

For an example of normative isomorphism, it is again useful to consider Carpenter and Feroz's (1992) study of New York State's adoption of GAAP. They argue (1992, p. 625) that while it was a social process of coercive isomorphism, instigated by the SEC, that eventually led to New York State's decision to adopt GAAP, nevertheless "a normative isomorphic process for adopting GAAP was fueled by the comptroller's staff having to increase their knowledge of GAAP to audit and monitor the finances of New York City in compliance with requirements of the SEC". In his study of the introduction of competitive compulsory tendering in UK local government, Seal (1999, p. 320) also found evidence of normative isomorphism, arising from changes in the knowledge base of the main professional body that both certifies and provides post-professional support to local government accountants.

The concept of isomorphism is useful for explaining why organisations resemble each other and particular rationalised myths become embedded, or institutionalised, in organisational structures and practices. For example, in this study of ANAO performance audit credibility, the notion helps to explain why performance audit is located within the ANAO and aligns itself with the kinds of audits traditionally associated with the accounting profession. However, the concept of isomorphism fails to explain *how* myths are created and come to be entrenched in the everyday social reality of the organisation and its field. In other words, isomorphism is about the sociology of organisational forms but not about the sociology of institutional change (Brint and Karabel, 1991, p. 343). To understand the latter, it is necessary to consider the notion of institutionalisation.

### 3.3.4 Institutionalisation

If institutions are systems of shared rules, norms and values or deeply embedded social patterns, then institutionalisation<sup>28</sup> is about how institutions arise, persist and diffuse (Scott, 2001, p. 121; see also Dillard *et al*, 2004, p. 508); how societal expectations of appropriate organisational form and behaviour come to take on rule-like status in social thought and action (Covaleski and Dirsmith, 1988b, p. 562); how patterns of interaction between social actors lead to the emergence of institutions (Barley and Tolbert, 1997, p. 100); and how routine and ongoing reproductive procedures support and sustain social patterns, furthering their reproduction (Jepperson, 1991, p. 145). Bealing *et al* (1996, p. 319) argue that institutionalisation can be a profoundly political process, dominated by the relative power and personal interests of specific individuals and agencies, including professional bodies. Evidence supporting this argument can be found in the processes by which the Pennsylvania Bureau of Consumer Services came to be widely accepted as appropriate and necessary (Ritti and Silver, 1986); sampling came to be accepted as part of auditing practice (Carpenter and Dirsmith, 1993); structures for US art museums came to be established (DiMaggio, 1991); diversification strategies came to be spread across US firms (Fligstein, 1991); the Financial Accounting Standards Board's standard-setting processes came to be sanctioned by its constituency (Fogarty, 1992b); GAAP came to be adopted by New York State (Carpenter and Feroz, 1992); case-mix accounting systems came to be introduced into health care organisations (Covaleski *et al*, 1993); and multidimensional performance measurement systems came to be introduced into the public sector (Brignall and Modell, 2000).

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<sup>28</sup> New institutionalists use the term, *institutionalisation*, in two senses: as an outcome and as a process. This paradox is discussed further in DiMaggio (1988, pp. 8-16); Bealing *et al* (1996, p. 319) and Carpenter and Dirsmith (1993, p. 43). The main emphasis in this thesis is on institutionalisation as a process.

The term *structuration*<sup>29</sup>, which is concerned with the relationship between the activities of knowledgeable human actors and the structuring of social systems (Macintosh and Scapens, 1990, p. 456), has also been used in connection with the processes of institutionalisation (see for example Barley and Tolbert, 1997; DiMaggio and Powell, 1991b; DiMaggio, 1991; Seal, 1999; Dillard *et al*, 2004). Indeed, Barley and Tolbert (1997) use the terms interchangeably. Building on Giddens' structuration concept, Barley and Tolbert (1997, pp. 99-103) propose a sequential model of institutionalisation (see Figure 3.5), featuring a dynamic, continuous process that allows for the initiation, reproduction and revision of institutional norms.

**Figure 3.5: Barley and Tolbert's sequential model of institutionalisation**

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(Barley and Tolbert, 1997, Figure 2, p. 101)

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<sup>29</sup> The term *structuration* is associated primarily with the British social theorist Anthony Giddens, whose work Barley and Tolbert (1997, p. 97) describe as “an attempt to articulate a process-oriented theory that treats structure (institutions) as both a product of and a constraint on human action”. A detailed exposition of Giddens' structuration theory can be found in Macintosh and Scapens (1990). See also Cohen (1996), Scott (2001) and Conrad (2003).

Barley and Tolbert conceptualise institutionalisation as a four-stage process that begins with the encoding of institutional principles into a script, such as a statute, professional standard, performance benchmark or technical design, or as part of a less formal socialisation process. The next stage (“moment”) occurs when actors enact the script, which may or may not entail conscious choice. Barley and Tolbert (1997, p. 102) argue that, in many cases, actors simply behave according to the way they perceive things to be. The third stage of Barley and Tolbert’s model involves either the replication or revision of the script. Barley and Tolbert assert that under most circumstances, a conscious decision to revise a script is more likely to lead to institutional change compared with, say, an unconscious, isolated instance of deviation. Changes in technology, cross-cultural contacts and economic downturns are examples of events that could lead to a conscious decision to amend a script, leading to institutional change. Finally, the fourth stage of the process entails objectification and externalisation of amended patterns of behaviour. According to Barley and Tolbert (1997, pp. 102-3),

[t]his involves the disassociation of patterns with particular actors and particular historical circumstances: the patterns acquire a normative, ‘factual’ quality and their relationship to the existing interests of different actors becomes obscured.

Barley and Tolbert argue that the investigation of how patterns of interaction lead to the emergence of a new institution is a formidable task. They suggest, however, that by comparing scripts over time, it may be possible to identify changes in interaction that indicate institutional change. With ANAO performance audit perceived as an institution in its own right, Barley and Tolbert’s model provides a useful vehicle for analysing the story of ANAO performance audit from its beginnings (“encoding”) in the 1970s as an ambitious idea to its eventual acceptance (“externalisation and objectification”) during the 1990s as a credible function of state audit. The institutionalisation of ANAO performance

audit and the achievement of its institutional credibility provide the central theme of Chapter 5.

### **3.3.5 Strategic response**

The new institutionalism maintains, among other things, that legitimacy is conferred on organisations when they are seen to conform to society's myths and also that organisations subject to similar myths and pressures will tend to be isomorphic in their structures and practices. Yet, paradoxically, it also accepts that some organisations respond differently to others when confronted with institutional demands. For example, some respond passively, adapting their structures and practices, consciously or unconsciously, in line with social expectations, while others respond proactively, using their relative power and influence to create new myths in line with their own self-interest. In other words, the new institutionalism recognises that there can be differences among organisations in the strategies they employ in responding to institutional pressures and that their strategic choices are bound up with their relative strength and capacity to influence others in the field.

Another factor besides power and self-interest that can lead organisations to react differently to institutional pressure is the need to deal with conflict and inconsistency among competing demands. This need can arise because of differences between technical and institutional demands or from conflicting pressures present in the institutional environment itself, such as between legal requirements and professional traditions. The problem of conflict and inconsistency between institutional (ceremonial) and technical imperatives on organisations is considered in Meyer and Rowan's (1991) seminal paper on institutionalised organisations, which suggests (1991, pp. 56-60) several "partial" solutions. First, organisations can choose to resist ceremonial requirements, although this

option could potentially endanger their resources and stability. Second, they can choose rigid observance of ceremony and organisational isolation at the expense of effective technical exchange. Meyer and Rowan argue, however, that this strategy could create frustration and disillusionment among both internal participants and external constituents as they attempt to transact across organisational borders. Third, organisations can “cynically” acknowledge the gap between structure and performance, thereby invalidating their rationalised myths and undermining their legitimacy. Fourth and finally, they can promise reform, holding out the prospects of future legitimacy while admitting to the illegitimacy of their current structures. Clearly, none of these partial solutions is entirely satisfactory.

Meyer and Rowan (1991, pp. 56-60) argue that instead of relying on partial solutions, organisations can use a strategy known as decoupling<sup>30</sup>, in which formal structure and the myths that sustain organisational existence bear little resemblance to actual work practices and technical performance. Decoupling involves the use of ceremonial structures and face-saving management rituals that are distinguishable from actual, everyday processes. For such a strategy to succeed, however, internal and external constituents must be prepared, because of their confidence and faith in the organisation, to cooperate in overlooking the gap between structure and performance. According to Meyer and Rowan, ambiguous goals, the professionalisation of activities, a lack of performance measurement and an emphasis on ceremonial inspection are all aspects of the decoupling process, allowing internal participants to save face, external constituents to retain

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<sup>30</sup> New institutionalists now tend to use the term *loose coupling* rather than *decoupling*. *Decoupling* is said to differ from *loose coupling* (Orton and Weick, 1990; Dirsmith *et al*, 1997) in that the former views the ceremonial (formal) and instrumental (operational) systems in the organisation as distinct and disconnected, whilst the latter allows for some degree of responsiveness and influence between the two systems. While acknowledging the value of this distinction, for simplicity in this thesis the term *decoupling* will continue to be used.



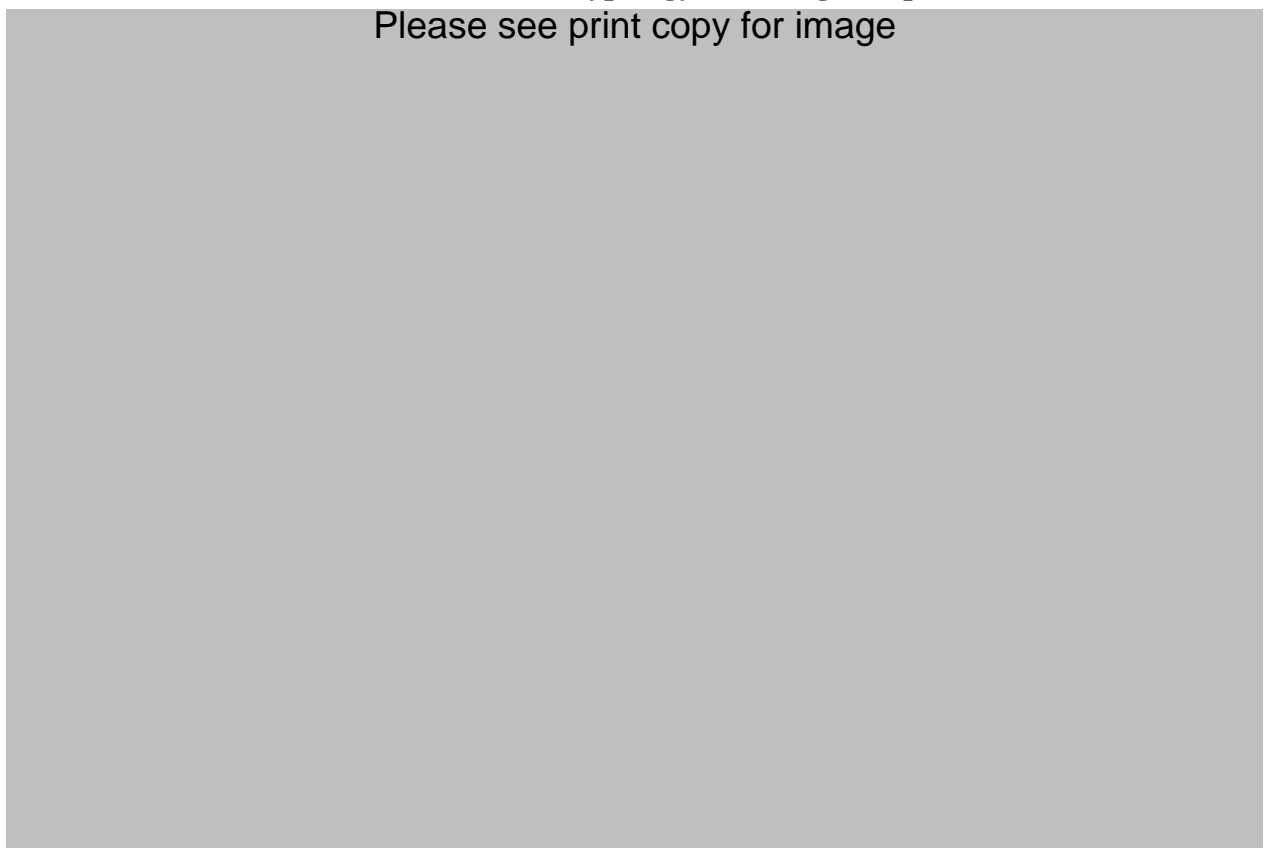
confidence in the organisation, and the organisation's rationalised myths to be reinforced. For Meyer and Rowan, the main advantage of a decoupling strategy is that it enables the organisation to maintain a standardised, legitimating, formal structure while its activities can vary in response to practical considerations. Oliver (1991, p. 155) warns, however, that while a decoupling strategy may be suitable for organisations where technical production is independent of public approval, it needs to be used with caution in other organisations. She contends that when the organisation depends on public approval and scrutiny to obtain legitimacy and funding, any attempt to decouple activities from public scrutiny may create suspicion and reduce its ability to obtain resources, legitimacy and social support. Carruthers (1995, p. 319) also warns about the dangers of decoupling.

Mainstream accounting theory believes that accounts can help produce better decisions. Dutifully followed, the application of accounting rules will generate information that will inform organizational decision-makers about their situation, and help them to select the optimal strategy. If accounts are being used more to justify decisions than to generate them, however, or to make decisions look good rather than to make them rational, then we would say that the rationalized form of accounting is decoupled from actual organizational decision-making. But to the extent that financial accounts are obviously manipulable, or are seen to be politicized symbolic window dressing, their credibility as “neutral”, “impartial”, or “objective” measures of organizational performance is undercut. Whatever accounting manipulations are being performed, they must be done “backstage” in order to be effective. It is hard to maintain appearances if the decoupling becomes too transparent.

The notion of decoupling has featured in numerous empirical studies in the accounting literature (Covaleski *et al*, 1993; Brignall and Modell, 2000; Dirsmith *et al*, 2000; Fogarty *et al*, 1997; Kitchener *et al*, 1999; Hines *et al*, 2001). For example, it has been used to interpret: the development and implementation of case-mix accounting in a health care context (Covaleski *et al*, 1993); the actions and inactions of the Ohio State Board of Accountancy in regulating accountants (Fogarty *et al*, 1997); the decoupling of policy

from practice in the monitoring of children's home management in the UK (Kitchener *et al*, 1999); the bureaucratic practices in the GAO (Dirsmith *et al*, 2000); the myth-making behaviour of the (UK) Financial Reporting Review Panel (Hines *et al*, 2001) and the development of performance measurement systems in the public sector (Brignall and Modell, 2000). Yet, decoupling is only one of a number of mechanisms that organisations might use in response to institutional demands. Oliver (1991, pp. 151-9) conceptualises these mechanisms as a five-part typology of strategic and tactical responses (see Table 3.1), which she arranges in ascending order of active organisational resistance.

**Table 3.1: Oliver's typology of strategic responses**  
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(Oliver, 1991, p. 152, Table 2)

The first of Oliver's strategies, acquiescence, refers to situations where organisations accede to institutional pressures through habit, imitation or compliance. Acquiescence

through habit occurs when social norms and values are so deeply ingrained in the institutional environment that they are complied with without question or awareness. Imitation, which is equivalent to DiMaggio and Powell's (1991b) mimetic isomorphism, and compliance tactics, however, tend to involve a more conscious, self-interested decision to comply. Oliver's second strategy, compromise, is used when organisations are confronted with conflicting institutional demands and inconsistencies in expectations. Oliver argues that compromise can be achieved by balancing competing demands, pacifying sources of pressure through partial compliance, or bargaining with resource providers for concessions. The third strategy, avoidance, refers to situations where organisations choose not to conform to organisational demands. Such organisations may conceal their non-conformance behind a facade of rituals and ceremonies or establish a buffer between their formal structures and their everyday work activities, each of which is consistent with a strategy of decoupling, described earlier in this section. Alternatively, organisations might avoid the necessity for compliance by remodelling or physically removing themselves so that they are beyond the reach of the offending pressures. The fourth strategy in the typology, defiance, involves active resistance to pressure through dismissal, challenge or attack. Oliver argues that organisations that choose to dismiss institutional pressures do so out of either ignorance or a belief that non-conformance will neither be noticed nor sanctioned. A challenge tactic, however, is about blatant defiance of institutional demands. Oliver (1991, p. 156) argues that organisations are more likely to succeed with a challenge strategy when they are able to demonstrate the rationality or probity of non-compliance. The third tactic, attack, is similar to challenge, except that it involves a greater level of intensity and aggressiveness in its belittling of institutional values. The fifth and final strategy in Oliver's typology is manipulation, which Oliver (1991, p. 157) defines as "the purposeful and opportunistic attempt to co-opt, influence, or

control institutional pressures and evaluations”. Manipulation involves a conscious effort to neutralise opponents, influence resource providers and/or dominate and control external constituents.

The new institutionalism argues that organisations in institutional environments are subject to isomorphic forces, yet Oliver’s typology demonstrates that there is scope for organisations to follow different strategies in responding to institutional pressure. Indeed, according to Fogarty (1992b, pp. 345-6),

Oliver (1991, pp. 151-159) provides the most thoroughly developed framework for strategic action in an institutionalized environment. ... Oliver’s (1991, pp. 165-168) propositions regarding the relative expression of strategies demonstrate that the assumption of passive conformity is an unwarranted caricature of institutional theory.

For Oliver (1991, p. 159), the theoretical rationale underlying an organisation’s strategic response is bound up with its willingness and ability to conform to the expectations of its institutional environment. She argues that an organisation’s willingness to conform is a function of organisational scepticism, political self-interest and organisational control, while its *ability* to conform depends on whether it has sufficient resources to meet its expectations, whether there is conflict among institutional pressures and whether it has a sufficient level of awareness of those expectations.

Since her paper was published in 1991, Oliver’s typology has been applied in many areas of research<sup>31</sup>, including standard setting and regulation (Fogarty, 1992b; Bealing, 1994; Bealing *et al*, 1996; and Fogarty *et al*, 1997) and public sector performance measurement (Brignall and Modell, 2000). For example, Bealing’s (1994) study of SEC enforcement

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<sup>31</sup> A citation search, performed using the ISI Web of Knowledge on 25 May 2005, identified 330 scholarly works citing Oliver (1991). Areas of research represented in these citations include accounting, behavioural sciences, education, entrepreneurship, environmental studies, ethics, government, health, human resource management, information systems, law and organisational studies.

actions identifies an acquiescent strategy involving conscious compliance with Congressional and Presidential expectations and, in a related study, Bealing *et al* (1996, p. 333) argue that acquiescent *and* compromise strategies can be simultaneously invoked “where there is a need to legitimate an organization to a single dominant constituent, and a need to gain acceptance with other constituents of lesser importance”. Fogarty *et al*’s (1997) study demonstrates the use of an avoidance strategy, which they argue occurred when the Ohio Board of Accountancy embarked on a project to collect competency data but failed to publish the results. For Fogarty *et al*, this means that the Board was able to present an appearance of regulatory activity and conformity with public interest, yet avoid the consequences of its findings. Another example of the use of Oliver’s typology is provided by Fogarty (1992b), who identifies examples of all five strategies in his historical study of the Financial Accounting Standards Board. Finally, Brignall and Modell’s (2000) study of the design and implementation of a performance measurement system demonstrates the use of the typology in developing a theoretical framework for analysing the dynamic interplay among members of individual interest groups.

The present study’s empirical findings include two distinct streams of ideas, one dealing with the isomorphism of ANAO performance audit with the rationalised myths of audit and the other with auditor-auditee relations and the contextual factors that bias their responses to one another. Whereas the rationalised myths of audit provide the core themes of Chapter 6, Oliver’s (1991) typology provides a useful framework for analysing the second stream of ideas, thereby helping to make sense of the empirical findings presented in Chapter 7.

### 3.4 Summary and conclusion

The intention of this chapter has been to explain the new institutionalism and identify insights from it for use as the study's theoretical lens. The chapter begins with an institutional perspective on organisations, including the meaning of the term *institution* and its associated terms, *the institutional environment* and *the organisational field*. It notes that formal administrative entities (organisations) subject to regulatory processes can be construed as institutions but so too can society's norms, values and taken-for-granted customs and rituals. The chapter argues that while the ANAO clearly fits the criteria for recognition as an institution, its performance audit function can also be construed as an institution in its own right, by virtue of its peculiar set of customs and practices and its special place within Australia's modern public accountability framework. Institutionalised organisations are subject to the rules and requirements of their institutional environments, to which they must conform for legitimacy and survival. For ANAO performance audit, these are primarily the public accountability requirements of Australia's system of responsible government, the nature of which is considered in Chapter 4. Institutionalised organisations also operate within organisational fields comprising multiple entities that, in the aggregate, constitute a recognised area of institutional life. The organisational field of ANAO performance audit includes the parliament, executive government, the APS, the ANAO itself and other entities that influence and are influenced by the ANAO's performance audit function.

The chapter has also identified five new institutionalist concepts that are of potential value for exploring the credibility of ANAO performance audit: first, the multi-faceted concept of legitimacy on which organisations depend, independent of their technical performance, for survival; second, rationalised myths, which govern how organisations view the world as it is and ought to be and define acceptable behaviour; third, isomorphism, another

multi-faceted construct that refers to the convergence of structures, practices, norms, values and/or traditions among members of organisational fields; fourth, institutionalisation, which is about how institutions are created and become entrenched as everyday social realities; and fifth and finally, the notion of strategic response, which deals with the different ways that organisations might react to the pressures imposed by their institutional environments. The notions of institutionalisation, rationalised myths and strategic response provide the themes respectively for Chapters 5, 6 and 7, while that of isomorphism is useful for exploring the alignment between performance and financial audit, between performance audit and NPM, and, generally, between ANAO performance audit and its credibility criteria. Legitimacy, however, is of pervasive interest to this study because of its significance for its central theme, namely ANAO performance audit credibility. There are various reasons for conferring legitimacy on an institution, including pragmatic reasons, but arguably the most significant for this thesis is that it is perceived as isomorphic with its rationalised myths. The rationalised myths of ANAO performance audit are the audit credibility criteria of auditor independence, technical competence and audit usefulness, identified in Chapter 1, and the function's perceived isomorphism with these criteria determines its standing as a credible state audit institution. Viewed through the theoretical lens of the new institutionalism, the central theme of this study is the ability of the ANAO to convince significant others of its isomorphism with the norms and values of state audit, at both the macro, institutional level and the level of micro-practice, and thus to be taken for granted as credible.

Before this study is in a position to pursue its central theme, however, it is necessary first to appreciate the institutional environment of ANAO performance audit. This is the purpose of the next chapter, which deals with the entities and ideas that constitute its institutional environment and organisational field.

## **CHAPTER 4**

# **THE INSTITUTIONAL ENVIRONMENT OF ANAO PERFORMANCE AUDIT**

*I repeat ... that all power is a trust, that we are accountable for its exercise, that from the people, and for the people all springs, and all must exist (Benjamin, Earl of Beaconsfield, Disraeli, 1804 - 1881).*

### **4.1 Introduction**

The purpose of this chapter is to establish a platform from which to explore the institutionalisation of ANAO performance audit, the story of which is told in Chapter 5. In terms of the study's theoretical lens, Chapter 4 probes the institutional environment of ANAO performance audit and the entities and ideas of its organisational field. It covers three facets of this environment (see Figure 4.1), all of which have a bearing on the ANAO and its performance audit function. The first facet is Australia's system of responsible government (Section 4.2), a general understanding of which is necessary to appreciate the myths and realities of the executive's relationship with parliament, which is



the state auditor's principal client and the entity to which he or she reports. The second facet is Australia's public accountability framework (Section 4.3), a theme that explores the line of accountability that purportedly exists between the APS, the executive, the parliament and the people. It also notes the changing conceptions of public accountability created by the processes of public sector reform. With the ANAO's intended outcomes bound up with public accountability and public management improvement (see Chapter 5), this section provides an essential introduction to the role of state audit, which is the third and final facet of the institutional environment of interest to this chapter (Section 4.4).

It is important to emphasise that the intention is not to provide a detailed examination of Australia's political system<sup>32</sup>, including the separation of powers between the legislature and the judiciary, Federal/State government relations and its electoral systems, most of which is irrelevant to the study's central theme. It is important to note, however, that Australia's system of government is a democratic political system modelled on the UK (Westminster) system of responsible government, a notion that is explored further in Section 4.2. This means that it features, among other things, an assembly or parliament of elected representatives with the power to make and change laws and a ministry drawn from that parliament to administer those laws. The ministry, in turn, is responsible to the parliament for their policy decisions, their management of public resources and the performance of their officials. Notwithstanding its British connections, however, the Australian system is not a direct clone of the Westminster system of government (Bartos, 2004, pp. 5301-2) but rather reflects elements of the US system as well, including its federal constitutionalism and the names chosen for its houses of parliament. There are

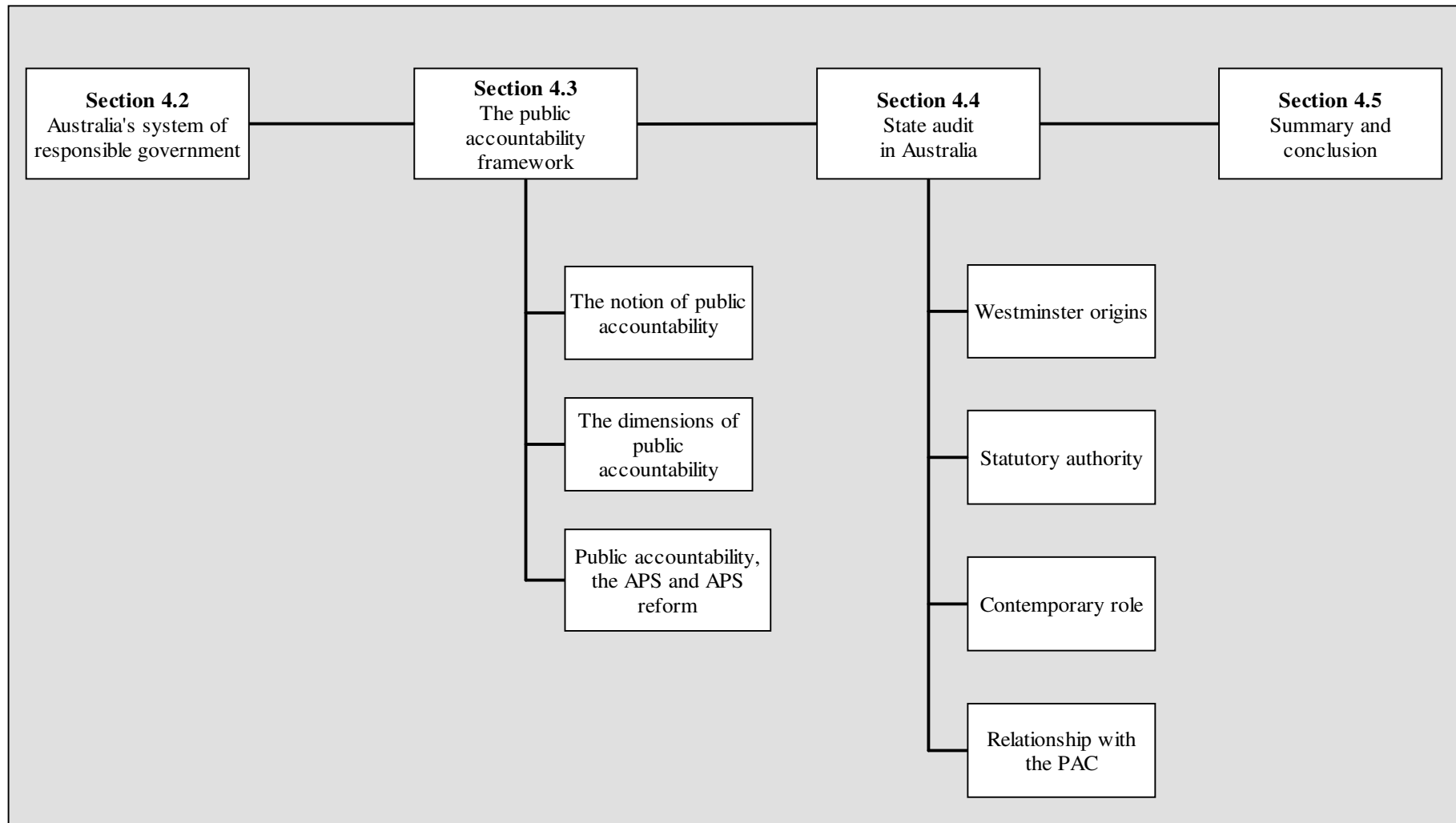
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<sup>32</sup> For further information on Australia's political system, see Lovell *et al* (1995), Smith (1997), Flinders (2001), Bartos (2004), Parkin *et al* (2006) or Weller (2007).

certainly strong similarities between the British and Australian systems, including a shared monarch (represented in Australia by the Governor-General) and a government formed by the party that commands a majority in the lower house of their respective parliaments. In other words, it is not a presidential system like the US model of government. Yet, the Australian system differs from its British counterpart in a number of ways including its written constitution, its federal structure and its elected upper house, the role of which is considered shortly.

In examining the institutional environment of ANAO performance audit and, in particular, the notions of responsible government, public accountability and state audit, the chapter achieves a second, equally important objective, namely to introduce the members of its organisational field, the structure of which was noted in the previous chapter (see Figure 3.4). In particular, the chapter explores the respective roles of parliament, the executive, the APS, the ANAO and the PAC. Although the PAC is only one of many parliamentary committees that have shown interest in the Auditor-General's reports in recent decades, the PAC receives special attention in this chapter because of its symbiotic relationship with state audit and its important role in the institutionalisation of ANAO performance audit.

**Figure 4.1: The themes of Chapter 4**



## **4.2 Australia's system of responsible government**

Australia's political system is a Westminster-style system of responsible government in which government is in the hands of a ministry drawn from the legislature, also known as the parliament, to which it is accountable, thus providing a fairly direct line of accountability from the executive, who hold office subject to the confidence of the lower house, through parliament to the people. In the Australian federal sector<sup>33</sup>, the legislature consists of a bicameral parliament with a lower house, known as the House of Representatives (hereafter the House) representing electorates of roughly equal numbers of voters and an upper house, known as the Senate, representing Australia's States and Territories. A distinguishing feature of the Australian political system compared with, for example, the UK and Canada is that both houses of parliament are elected. Whereas the House provides equal representation for individual voters, the Senate enables equal representation for each State (12 seats each) and Territory (2 seats each).

The ministry is drawn from the party or coalition of parties that commands a majority in the House, chosen in accordance with the prevailing traditions of the dominant party. The Governor-General, representing the Queen as head of state, then forms a Cabinet of senior ministers, the members of which are selected on the Prime Minister's advice. Also known as the executive or executive government, the Cabinet defines and articulates government policy in the form of bills for consideration by the parliament, including bills for the raising of revenue and the appropriation of monies to fund its policies. The bills, as amended by the parliament, become law only after they have been passed by the lower and upper houses of the parliament and assented to by the Governor-General. Chapman (2000, p. 117; see also Normanton, 1966, pp. 4-8; RCAGA, 1976, p. 107) argues that the

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<sup>33</sup> Federal and State governments can differ in their legislative arrangements. For example, the State of Queensland has no upper house and neither do the two federal territories, namely the Australian Capital Territory (ACT) and the Northern Territory.

essence of a Westminster-style system of responsible government like Australia's is this partial separation of powers between a strong executive government and a parliament of elected representatives, to whom the executive is responsible for its actions and on whom it depends for its authority to raise revenue and expend monies. Indeed, it must maintain the confidence of the parliament in order to remain in office. Yet, in reality, its majority representation in the House means that the executive is able to exert considerable control over the parliament and its legislative agenda (see, for example, Bland, 1998, p. 3), a control that is especially strong when the party (or coalition of parties) in government also controls the Senate<sup>34</sup>. Weller (2007, p. 192) argues that Australia's system of government is in fact better described as responsible *party* government, with ministers more accountable to the Prime Minister and the party than to the parliament. Yet Haward (1997, p. 116) takes a different stance, arguing that the idea that the parliament fails to provide an adequate mechanism for enforcing the principles of responsible government ignores the evidence of its successes over the years in bringing the executive to account, using such devices as question time and the parliamentary committee system. The next chapter of this study, which explores the institutionalisation of ANAO performance audit, provides numerous examples of the use of question time and parliamentary committees to challenge the executive and its public officials, providing support for Haward's view.

The parliament's ability to exercise at least some of its powers of scrutiny over the executive, regardless of its strength, can be explained by the multi-dimensional nature of parliamentary contest that can arise, for example, between the government and opposition ranks, between the executive and the rest of the parliament (that is, the opposition plus

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<sup>34</sup> Government control of both houses of parliament is a relatively rare phenomenon in the history of the Australian Parliament. For example, when the Howard Liberal Coalition Government gained control of the Senate in July 2005, this was the first time in more than two decades that the government of the day had enjoyed a majority in both houses. This state of affairs lasted only until 2007, with the election of the Rudd Labor Government.

government back-benchers), and between the House and the Senate, especially when the executive controls only the lower house. According to Singleton *et al* (1996, p. 92), while there are many cross-currents and subtleties in the relationships within the parliament:

[t]here remains a common theme, however: tensions between those who exercise the power that flows from the various kinds of executive office and those who wish to question or challenge it. This does not mean that leaders enjoy a monopoly of power with parliament, since they must have the support of their backbenchers and, ultimately, of the electorate in order to retain office. In addition, in the case of the Australian parliament, the government must gain the support of the Senate to pass its legislation. It is a question of the amount of power exercised by the leadership *relative to* the power available to their followers [emphasis in the original].

Whereas the executive is responsible for defining and articulating government policy and the parliament for enacting it, the responsibility for implementing and administering policy is in the hands of the APS, which exists to inform and advise ministers and manage the programs for which they are individually responsible under the executive's delegated powers. As such, the APS has been described (see, for example, RCAGA, 1976, pp. 11-2) as an extension of ministerial capacity. Yet, notwithstanding its subordinate relationship to the ministry, the APS must also act in accordance with the Constitution, the law and the appropriations approved by the parliament. In theory, ministers are wholly responsible for all actions in matters within their agencies (RCAGA 1976, p. 42) and the parliament has the power to expel them from office for the failures of their officials. It is widely acknowledged, however (see, for example, Day and Klein, 1987; Dixon *et al*, 1996; Chapman, 2000; and Mulgan, 2000), that ministers in liberal Westminster democracies do not normally fall on their swords to assuage the wrongs of their large, complex and sometimes delinquent agencies unless they have had a personal

involvement in the matter<sup>35</sup> or are shown to have misled the parliament. Indeed, Gray and Jenkins (1993, p. 53) argue that there never was a “golden age” in which ministers were held accountable and, when found wanting, forced from office. Consistent with this view, Weller, giving evidence before a parliamentary inquiry into members of parliamentary staff, argued that:

the notion that the minister is responsible for the office is akin to an old-fashioned notion that the minister is responsible for everything that goes on in his or her agency. That never actually existed, although it is technically at the core of ministerial responsibility. The minister answers for his or her department. The minister explains to parliament the shortcomings that might occur within the department, but the minister does not resign over it and is not personally responsible for it (Australia, Senate, Finance and Public Administration References Committee, 2003, p. 80).

This disparity between the theory and practice of Westminster has long been recognised (Funnell, 1994a, pp. 163-4; see also RCAGA, 1976, pp. 11-13 and Australia, House Standing Committee on Finance and Public Administration, 1990, p. 91) and yet the parliament and the wider community continue to cling to the ideals and myths of Westminster and to pursue a “barren quest for ministerial resignations” (Hawke 1990, p. 14). Evidence of their faith in Westminster tradition can readily be found in the media

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<sup>35</sup> On 28 February 1994, Ros Kelly M.P. resigned from her position as Minister for Environment, Sport and the Territories. This followed a parliamentary committee review of a performance audit into the allocation of funds from the Community Cultural, Recreational and Sporting Facilities program in which she was found to have played a direct role (HR ERA Committee, 1994). Arguably, however, there is little in her letter of resignation to indicate genuine acceptance of responsibility for her own actions or those of her officials.

I am writing to you regarding the debate over the community, cultural, recreational and sporting facilities program. As I have consistently stated, I have not misled the parliament and there has been no impropriety, fraud or corruption associated with this program. However, the massive parliamentary and media focus on this issue is diverting national attention from issues critical to the future development of Australia, including major issues within my own portfolio. I believe that if this speculation were to continue it would only harm the federal government, and I do not wish to see damage done to the government. I have had the privilege to serve as a minister for almost seven years. I have therefore decided to offer you my resignation from the portfolio of Environment, Sport and Territories and as Minister Assisting the Prime Minister for the Status of Women (Australia, House of Representatives, Parliamentary Debates, 1994, p. 1365).

(for example Irving 2002, p. 8; Kingston, 2004, p. 64; Mulgan, 2002, p. 9; Seccombe, 2003, p. 28; Steketee, 2003, p. 4 and 2004, p. 11; and Taylor, 2004, p. 12) and in the Hansard<sup>36</sup> of the Australian Parliament and its committees. Consider, for example, the following extract from a parliamentary debate in which a member of the (then) opposition, Senator Faulkner<sup>37</sup>, appeals to the convention of ministerial responsibility to censure a government minister, while at the same time acknowledging the parliament's limited capacity to exercise its powers.

Senator FAULKNER: ... Normally when a prime minister and ministers mislead parliament and the public there are severe consequences—somebody has to take the rap for misleading—but under Mr Howard ministerial responsibility is not what it used to be. Ministers are no longer responsible for the mistakes of their departments. They are not even responsible now for their own mistakes. It is apparently sufficient to mutter through gritted teeth—as we have seen Senator Hill do—a few words of regret and then move on to the next issue. In the view of the opposition, the misleading of parliament and the public is a serious matter, as is the failure to accept responsibility ...

This case goes beyond a case for censure. If Minister Hill had a shred of decency and any respect at all for the conventions of ministerial responsibility, he would have resigned by now ...he has not got that sort of respect for the conventions of ministerial responsibility. We may not be able to force Senator Hill to resign, but we are able to censure him (Australia, Senate, Official Hansard, 2004, p. 24353).

The political cartoon reproduced in Figure 4.2, which was published a few days later, suggests that the media also recognises the political realities of the Westminster system.

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<sup>36</sup> Hansard is the name given to the official verbatim record of debates in the parliaments of Westminster democracies such as Britain, Canada, Australia and New Zealand. It is named after the nineteenth century English printer, Thomas C. Hansard.

<sup>37</sup> John Faulkner, a member of the Australian Labor Party, has been a Member of the Senate since 1989.



**Figure 4.2: A media perspective on ministerial responsibility**

Please see print copy for image



(Pryor, 2004, p. 18)

Nonetheless, while it may be unusual for ministers to be brought to account in the manner envisaged by the conventions of Westminster, the executive remains obliged to report and explain the actions of its officials to the parliament and to respond to its questions. In other words, ministers are publicly accountable, if not responsible, for their actions. Often used interchangeably, *responsibility* and *accountability* are not synonymous concepts (Flinders, 2001, p. 11; see also Day and Klein, 1987, pp. 33-4) and should not be conflated. Rather, Flinders argues that the distinction between the terms is culpability: whereas responsibility always involves a sense of liability or blame, accountability can imply merely an obligation to give an account or reckoning. The notion of public accountability is explored further in the following section.

### 4.3 The public accountability framework

#### 4.3.1 The notion of public accountability

According to Flinders (2001, pp. 12-3), there are five layers of accountability, which he classifies as redirectory, informatory, explanatory, amendatory and sacrificial accountability (see Table 4.1). While each of these layers involves an obligation to account, they are distinguished from one another in the degree of stringency associated with each obligation. In theory, the Westminster convention of ministerial responsibility is akin to Flinders' sacrificial accountability but in practice it operates within less stringent layers. Flinders argues that dissecting the concept of accountability into different layers is useful because it allows nuances within the wider convention of ministerial responsibility to be identified. He also contends that ministers tend to emphasise the informatory, redirectory and amendatory forms of accountability, while transferring the explanatory and sacrificial forms to their officials.

**Table 4.1: Flinders' layers of accountability**

Accountability	Description
Redirectory	Requires those charged with rendering an account to redirect questions to those best placed to answer them.
Informatory	Requires that an account is tendered to those to whom an account is due but does not involve an acceptance of blame for information given.
Explanatory	Extends informatory accountability by a duty to provide an explanation for the information contained within the account.
Amendatory	Extends explanatory accountability by a duty to apologise for, and take action on, the shortcomings identified in the account.
Sacrificial	The ultimate level of accountability, which requires those responsible to resign due to information contained within the account.

(Adapted from Flinders, 2001, pp. 12-3)

Flinders' contention is arguably reinforced by the manner in which the Australian Parliament, itself, defines the term, *ministerial accountability*: "the requirement that a minister can be called upon to *explain* in parliament his or her actions and those of the departments and agencies under his or her control" (Parliament of Australia, 2003, emphasis added). The idea that public accountability is associated with a responsibility to report and explain, and in so doing to provide information for assessment, is also evident in the following extracts from the political media.

The Public Bodies Review Committee has also criticised government bodies, including the large education, community services and police agencies, because their annual reports have not properly addressed the goals pursued or the outcomes achieved during the year. Last week, that committee ... told the NSW Parliament that agencies were still failing to meet public accountability requirements ... the Government should introduce modern reporting legislation to make government bodies report annually on key performance information that is auditable by the Auditor-General (Harris, 2000, p. 43).

In this era of mutual obligation there is still a big area where government spending comes with few strings attached and little public accountability ... Mitsubishi's request for an additional \$140 million of taxpayers' funds is not the first such request ... If millions of taxpayers' dollars are to be spent on industry assistance, then both governments and the Australian people must be provided with sufficient evidence to assess the benefits that accompany the assistance. ... The present approach to industry assistance is ad hoc and open to claims of political bias. Governments, at all levels, must make themselves and corporate Australia far more accountable to Australian taxpayers (Stott Despoja, 2002, p. 59).

Public accountability is also, of course, a matter of deep and abiding concern for auditors-general (see for example Taylor, 1990; Barrett, 1998 and 2000). Indeed, Taylor, who was Auditor-General from 1988 to 1995, describes public accountability as the cornerstone of the Westminster system (Auditor-General, 1989a, p. 7). The term *public accountability* is not easy to define, however, except in very broad terms. The media reports cited above

suggest that it is about the obligations of individuals and organisations to answer to society for their actions in matters of public interest including, but not restricted to, the use of public monies. Yet, exactly who is accountable, for what and to whom, and what level of culpability is thereby attached, is both contextual and problematic. Further, in Westminster democracies, the notion of public accountability is said to legitimate the actions of governments (Stewart, 1984, p. 13), yet how this notion can and should be applied within complex, modern forms of government is by no means straightforward.

In the past, the notion of public accountability tended to be seen from a traditional, financial audit perspective. For example, Normanton (1966, p. 2) defined public accountability in terms of a statutory obligation to provide financial information to authorised independent and impartial observers “holding the right of reporting their findings at the highest levels in the state”. This is a view of accountability that is redolent with budgetary rectitude, financial accountability and auditable stewardship, and “the verification of financial accounts to check on whether the appropriate funds have come in and whether the outgoing money has been spent properly” (Day and Klein, 1987, p. 8). From a financial audit perspective, the importance of the budget is that it provides relatively unambiguous standards for establishing the correspondence of the accounts, submitted at the end of the budgetary cycle, with the appropriation laws made at the beginning. Thus, under Normanton’s conception, the notion of public accountability is bound up with the checking of financial performance against legislative authorisation, consistent with the obsessive focus on financial prudence and economy that Funnell (2004, pp. 42-51) associates with the nineteenth century architects of Westminster accountability.

By the end of the twentieth century, however, public accountability came to be associated with a much wider range of responsibilities, including the responsibility of the executive and its officials for the efficient and effective use of public resources. This extension of the notion of public accountability beyond probity, legality and financial stewardship, together with the rise of different accountability mechanisms such as “the hawkish scrutiny of the press” (Funnell, 1994a, p. 40; see also 2001, pp. 20-1 and p. 156), added to the breadth, complexity and imprecision of the public accountability concept. Further, the emergence of new approaches to public sector management (NPM) and structural changes in organisational governance (Power, 1997, pp. 142-3) and best practice (Hood, 1995, pp. 95-7) produced an environment in which the meanings now attached to accountability (Funnell and Cooper, 1998, p. 30) are said to be unclear (Day and Klein, 1987; English, 1990; Fowles, 1993; Gray and Jenkins, 1993; Hood, 1995; Sinclair, 1995; Broadbent *et al*, 1996; Dixon *et al*, 1996; Glynn and Murphy, 1996; Funnell and Cooper, 1998; Chapman, 2000; and Gendron *et al*, 2001); contestable (Funnell and Cooper, 1998; English, 2003) and paradoxical (Broadbent and Laughlin, 2003; Jos and Tompkins, 2004). Indeed, the potential dangers of the NPM environment for public accountability are reflected in the following extract from the political media, which draws attention to the implications of one of its reforms.

One of the most persistent and strident criticisms of the Federal Government’s Public Service reform agenda is that public accountability will be reduced or, at the very least, made less obvious. The argument is that contracting out public-sector services will reduce direct accountability of government to the people (Dodson, 1997, p. 60).

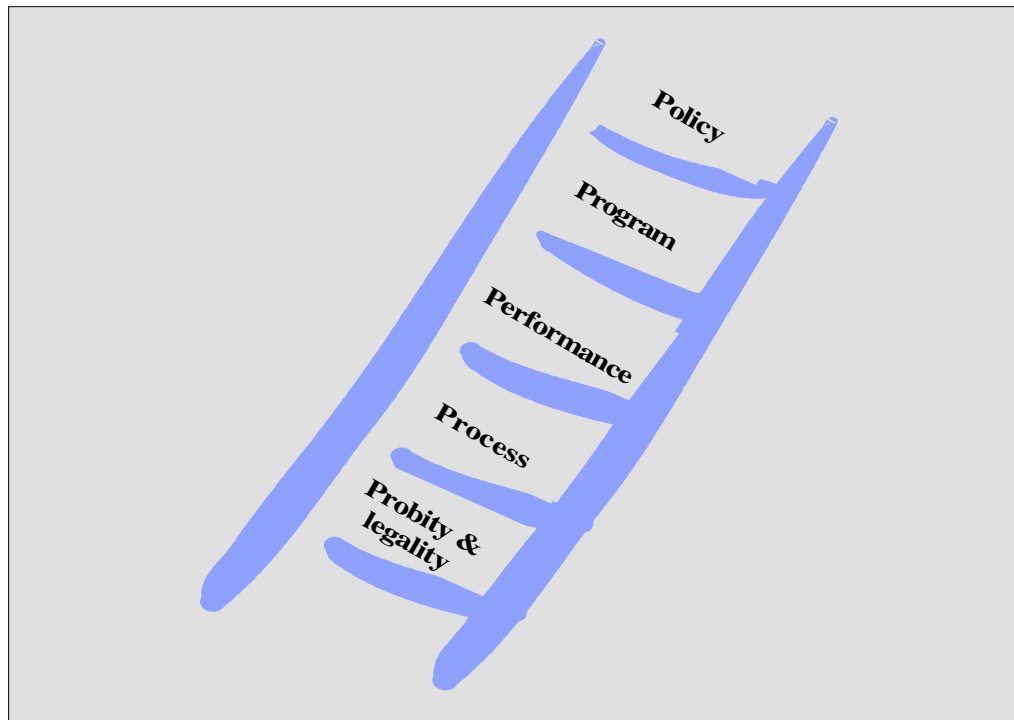
Interest in the concept of public accountability across various academic disciplines has led to a diverse, wide-ranging and often critical literature covering, for example, the threats to public accountability posed by NPM (Funnell, 2001) and government interference in the powers of statutory office holders such as state auditors (for example Clark and De

Martinis, 2003; English, 1990 and 2003; English and Guthrie, 2000; and Funnell, 2003), and the implications for public accountability of the ostensible demise of the Westminster system (Dixon *et al*, 1996; and Chapman, 2000). There is also a wealth of material on the nature and dimensions of public accountability (for example Normanton, 1966; Stewart, 1984; Day and Klein, 1987; Gray and Jenkins, 1993; Hood, 1995; Broadbent *et al*, 1996; Dixon *et al*, 1996; Glynn and Murphy, 1996; Gendron *et al*, 2001; Mulgan, 2001; Broadbent and Laughlin, 2003; Everett, 2003; Guthrie *et al*, 2003; Broadbent and Laughlin, 2003; Funnell, 2003; Pallot, 2003; and Jos and Tompkins, 2004), which provide numerous conceptions of the concept, from Normanton's narrow definition of auditable accountability (Normanton, 1966, p. 2) to Stewart's wide-ranging ladder of accountability (Stewart, 1984, pp. 17-9). The following section looks in more detail at some of these conceptions and ideas, not with the intention of providing an exhaustive analysis of this "notoriously elusive" (White and Hollingsworth, 1999, p. 6; see also Mulgan, 2000, p. 87; and Sinclair, 1995, p. 220) and "fuzzy" (Flinders, 2001, p. 17) concept but rather of highlighting the accountability environment in which ANAO performance audit is conducted, and the potential risks to Westminster traditions, including state audit, created by the complexity of that environment.

#### **4.3.2 The dimensions of public accountability**

Stewart (1984, pp. 17-9; see also Broadbent *et al*, 1996; Degeling *et al*, 1996; Broadbent *et al*, 1999; and Broadbent and Laughlin, 2003) argues that the modern scope of public accountability can be conceptualised as a ladder of accountability dimensions (see Figure 4.3).

**Figure 4.3: Stewart's ladder of accountability**



(Adapted from Stewart, 1984, pp. 17-9)

The five rungs of this ladder encompass notions of probity (avoidance of malfeasance) and legality (compliance with law), process (adherence to procedures), performance (achievement of standards), program (achievement of goals) and policy (electoral accountability) which, according to Stewart, lead from accountability by standards to accountability by judgement. Stewart argues that a lack of standards at the higher rungs of the ladder distinguishes accountability in government from its equivalent in the commercial sector, where standards are supplied by market forces. Paradoxically, however, despite these differences in standards, Broadbent *et al* (1996, p. 268) argue that each rung on Stewart's ladder represents a tighter and more precise account of actions undertaken by the agent. In their view, probity and legality information deals only with the legality of expenditure patterns, and process information with the means adopted rather than the ends of actions and activities. In both cases, they argue that the agent has considerable discretion to pursue whatever actions are deemed appropriate, as long as the

processes adopted are made visible to the principal and hence open to possible disciplinary action. Broadbent *et al* also argue that performance, program and policy information are intended to declare, in precise terms, the end achieved by the agent according to the ethos and specific goals set by the principal. The different positions taken by Stewart (1984), on the one hand, and Broadbent *et al* (1996), on the other, serve to emphasise the ambiguities and uncertainties associated with the evolving notion of public accountability.

While not necessarily disputing the multi-dimensional character of accountability, many scholars (for example Stewart, 1984; Day and Klein 1987; Broadbent and Laughlin, 2003; Everett, 2003; but compare Sinclair, 1995) conceptualise public accountability, in the first instance, as a two-dimensional amalgam of political and managerial accountability. Political accountability embraces the executive's obligation to account for its policies (Sinclair, 1995, p. 225; Broadbent and Laughlin, 2003, p. 26), whether pursued or not, as well as for its budget: "for expenditure approved and taxes raised" (Stewart, 1984, p. 17). Notions of political accountability are represented on Stewart's ladder, in the main, by policy accountability, which Stewart argues is at the heart of electoral accountability. They are also reflected in Funnell's (2003) constitutional accountability and White and Hollingworth's (1999) democratic accountability. Funnell (2003, p. 107) defines constitutional accountability in terms of the accountability of governments to the public "for governing in the best interests of all citizens according to accepted conventions or legally prescribed processes", while for White and Hollingworth (1999, p. 7; see also Pallot, 2003, p. 135), democratic accountability is about the executive's accountability to the people through the ballot box and, between elections, to the parliament through its institutions of parliamentary scrutiny and control.



In contrast to political accountability, managerial accountability is about the accountability relationships within and between government entities, between agency heads and their ministers and, increasingly, directly between public officials and the parliament. Managerial accountability is concerned with issues of process and control and the achievement of specified goals, as well as the probity and legality of operations, and is therefore focused on the lower rungs of Stewart's ladder. In other words, it is essentially an umbrella term for a range of accountabilities that are internal to organisations (White and Hollingsworth, 1999, p. 7) but which the forces of NPM have also released into the public arena<sup>38</sup>. Nonetheless, despite the differences that distinguish political and managerial accountability, Stewart argues (1984, p. 18) that they are essentially interdependent notions, in that the public accountability of a government for its activities depends on the existence of managerial accountability within its departments of state.

The dimensions of public accountability and the complexity of the concept also need to be understood in the context of the multiple aims of accountability relationships. Flinders (2001, p. 9) suggests that these are fourfold: first, control of abuse, corruption and misuse of public power; second, assurance that public resources are used in accordance with publicly-stated aims and that public service values (impartiality, equality, etc.) are being adhered to; third, improvement in the efficiency and effectiveness with which public monies are used; and fourth, the enhancement of the legitimacy of government. This complex, multi-faceted, multi-purpose notion of public accountability is the rationale for the existence of state audit, which itself has necessarily evolved in line with "shifting"

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<sup>38</sup> Note, for example, the Department of Finance and Administration (2000, p. 4), which cites public accountability as an objective for "[m]anaging through outcomes and outputs" because, among other things, "[it] can also help improve the understanding and knowledge of those outside the agency who have an interest in its performance, including ministers, parliament and external accountability bodies such as the Auditor General".

(Gendron *et al*, 2001, p. 283) notions of accountability. White and Hollingsworth (1999, p. 9) argue that modern forms of state audit now provide professionally structured and independent information to a variety of actors in the accountability process. Moreover, they argue that modern state audit straddles the area in which democratic (political) and managerial accountability meet. This suggests that state audit, today, functions within a much more complex environment than it did only a few decades ago, before notions of accountable management (see, for example, RCAGA, 1976, p. 44; see also Sinclair 1995 and Goddard, 2002) entered the lexicon of public accountability. It also means that state audit, like public accountability, is no longer a relatively simple construct focused on financial propriety, a point that is pursued later in this chapter.

#### **4.3.3 Public accountability, the APS and APS reform**

There are a plethora of mechanisms (Flinders, 2001, p. 14), both formal and informal (for example, the media), by which Westminster-style governments like Australia's can be brought to account, not least of which is the ballot box. Between elections, however, the predominant mechanism is the parliament, which acts as a surrogate for the electorate (White and Hollingsworth, 1999, p. 7). According to Mulgan (2000, p. 91),

[p]arliament itself, as the institution of executive scrutiny, activated by motives of both adversarial competition and genuine concern for the public interest, provides a powerful forum for holding governments to account, especially through parliamentary questions and committee investigations.

Yet, the accountability of executive government to parliament, in parliament, is just one, albeit essential, link in a chain of accountability that joins public officials to their agency heads, agency heads to their ministers, ministers to the executive, the executive to the parliament, and, ultimately, the parliament to the people (Sinclair, 1995, p. 225). This hierarchy of relationships and responsibilities is the traditional Westminster conception of

public accountability and the one reflected in the view expressed by the RCAGA (1976, pp. 11-2), noted earlier in this chapter, that the APS is an extension of ministerial capacity. This implies that ministers are accountable and, notionally, responsible for the actions of their agencies. Nonetheless, the chapter has also argued that this stringent view of accountability is unrealistic in the context of complex, modern bureaucracies. Rather, much of the responsibility for agency management inevitably must lie with public officials. According to the RCAGA (1976, p. 42):

[i]t is important that this be acknowledged, the nature and extent of the responsibility by clarified as far as possible, and procedures established to assess performance and to provide that those responsible at all levels will be accountable for their performances. 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 [emphasis in original].

The RCAGA was established during the latter years of the reformist Whitlam Labor Government (1972-5) (hereafter, the Whitlam Government) to enquire into and report on the purposes, functions, organisation and management of Australian government departments, statutory corporations and other authorities and the principal instruments of co-ordination of Australian government administration and policy; and the structure and management of the APS (RCAGA, 1976, Letters Patent). Consistent with its terms of reference, the RCAGA conducted an extensive, groundbreaking review of the workings of government, the outcome of which was more than three hundred recommendations for improving public administration and audit. These covered, for example, relationships between ministers and their officials and between officials and the parliament; the efficient use of resources; public sector staffing; and mechanisms of public sector co-ordination and control, including performance (efficiency) audit. Among other things, the RCAGA proposed the establishment of a forward estimates budgeting system, the

devolution of management responsibility to agency heads, clarification of the responsibility of agency heads to ministers, greater flexibility for agency heads regarding staff classifications, and the recreation of the Public Service Board and the Treasury<sup>39</sup> as agents of support rather than control. All of these suggestions are in accordance with the RCAGA's conviction that agency heads should be responsible and accountable for the efficient management of their agencies (RCAGA, 1976, p. 44). Although most of its recommendations on APS reform were ignored by the government of the day, the RCAGA was to become a catalyst for APS reform<sup>40</sup>, initiating a discourse on public management that coincided with an emerging focus, worldwide, on improving the performance of public administration<sup>41</sup>. This early discourse on reform is evident, for instance, in the academic and professional literatures of the period (for example, Hazelhurst and Nethercote, 1977; Smith and Weller, 1978; and Australian Society of Accountants, 1980a and 1980b), in the debates in parliament surrounding the Auditor-General's mandate for efficiency audit (explored further in Chapter 5), and in various government studies and reports, including the Review of Commonwealth Administration (Australia, 1983; also known as the Reid Review), initiated by the Fraser Liberal

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<sup>39</sup> In 1976, the Treasury's responsibilities for financial administration were transferred to the newly-created Department of Finance. This was renamed the Department of Finance and Administration in 1997 when it assumed the functions formerly undertaken by the Department of Administrative Services. The Department has been known as the Department of Finance and Deregulation since late 2007.

<sup>40</sup> The high regard in which the RCAGA is held for its contribution to APS reform is evident in Colebatch (2002) and is exemplified in the following comments made by one of the present study's auditor-participants.

I think we'll all continue to be impressed by just what initiatives that the Royal Commission spawned. I mean ... it's just so well considered that, you know, it applies equally today (Interview with ANAO #14, 5 May 2004).

<sup>41</sup> A review and critique of the global public management revolution (NPM), including its emergence in Australia and elsewhere, is beyond the scope of this study except insofar as there are implications for the study's central theme. For the interested reader, there is an extensive cross-disciplinary literature on NPM (for example, Hood, 1991 and 1995; Kettl 1997 and 2000; Barzelay, 2001; Nethercote, 2003; and Pollitt and Bouckaert, 2004), including the neoclassical economic and managerialist philosophies that are said to underpin it.

Coalition Government (1976-83) (hereafter, the Fraser Government). This was followed in 1984 by the Financial Management Improvement (FMI) Program's Diagnostic Study (Australian Public Service Board and Department of Finance, 1984), published during the early years of the Hawke Labor Government (1983-91) (hereafter, the Hawke Government).

It was the Hawke Government, however, that implemented the first formal program of APS reforms, post-RCAGA. These led progressively, although not necessarily coherently (Johnston, 1998, p. 364; see also MAB-MIAC, 1993a, p. 6), to changes in the strategies, structures and mechanisms of public sector management, the corporatisation and privatisation of public assets, and the establishment of new kinds of public/private sector relationships (see Appendix D). The Hawke reforms can be classified into five broad groups: firstly, structural reforms involving organisational design issues and notions of devolution and decentralisation; secondly, industrial and human resource management reforms, such as the streamlining of classifications and performance appraisal; thirdly, commercial reforms, such as contracting out, accrual accounting and the creation of government business enterprises; fourthly, financial management and budgeting reforms, including the introduction of a new budgetary system known as program management and budgeting and management incentives such as efficiency dividends; and fifth, and finally, planning and reporting reforms, encompassing corporate planning, performance indicators, evaluation processes, management information systems and annual reporting (MAB-MIAC, 1993a, pp. 61-3). In addition, the Hawke Government made extensive use of partisan ministerial advisers to bolster ministerial control (Maley, 2002, p. 105). For reasons considered later in this study, some of these initiatives were to prove problematic for public accountability and a source of ongoing tension between the executive and state audit.

One of the public sector reform initiatives that are of special interest to this study is the Hawke Government's FMI Program. This is because of its promotion of a corporate, managerialist style of public sector management that, for APS officials, helped make sense of ANAO performance audit and the criteria it used for assessing program and management performance (see Chapter 5). Established in 1984 as a joint undertaking of the Public Service Board and the Department of Finance<sup>42</sup>, the FMI Program was focused on five key areas of the Hawke reforms: the budgetary and regularity framework, program management and budgeting, commercial practices, incentives, and reporting mechanisms. Its objectives were threefold: to streamline the budget formulation process; to improve the system by which agencies make decisions and manage and evaluate achievements; and to enhance public accountability and scrutiny. In turn, these were guided by four underlying principles: devolution of control from the central agencies ("letting the managers manage"), user pays, public accountability, and effective performance encompassing the notion of risk management and an orientation towards results (Australia, House Standing Committee on Finance and Public Administration, 1990, p. 8). The FMI Program urged agencies to adopt a management framework featuring a corporate management style with articulated goals and strategies, a program management system with specified outputs and outcomes, an organisational design commensurate with management on a program basis, effective management information systems to facilitate the monitoring of resource use and program results, and a focus on program evaluation (Australia, House Standing Committee on Finance and Public Administration, 1990, pp. 12-6; see also FMI Program, 1990).

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<sup>42</sup> The FMI Program became the sole responsibility of the Department of Finance in September 1987, following the replacement of the Public Service Board by a commission with reduced powers.

The FMI Program's framework was well-received by the APS, at least in theory, and praised for improving public sector management. According to the House Standing Committee on Finance and Public Administration (Australia, 1990, p. 120), for example, the FMI Program's major achievements were twofold: first, the development of a more flexible budgetary and regulatory framework and, second, its success in directing the focus of APS management towards effectiveness and improved performance. Nevertheless, the Committee also found that much of the FMI Program's success was bound up with its ability to put structures in place rather than to integrate them into everyday agency practice. Consistent with this view, the Task Force on Management Improvement (MAB-MIAC, 1993a, pp. 29-30) argued that:

There are ... significant lessons for the implementation of future changes ... as well as for bedding down or making better use of the changes already made.

The priority for maximising performance is to present the individual APS reforms of the 1980s in an integrated manner and to extend the reforms across the APS and to incorporate the new culture of performance into all agencies ... Efforts are also needed to ensure that managers at all levels understand and accept the need for balance between accountability and freedom to manage.

One of the primary goals sought by the public sector reforms is said to have been increased APS accountability (MAB-MIAC, 1993a, p. 113) and, as a standing committee of the parliament (see Section 4.4.4), the Finance and Public Administration Committee (Australia, 1990) had a special interest in this goal. In its 1990 report on the FMI Program, the Committee noted that the greater emphasis on accountability for performance resulting from the FMI Program's initiatives had created a substantial increase in the volume of performance information submitted to the parliament and accordingly argued that the FMI Program's reforms had created an era of "new accountability" within the Commonwealth public sector (Australia, House Standing

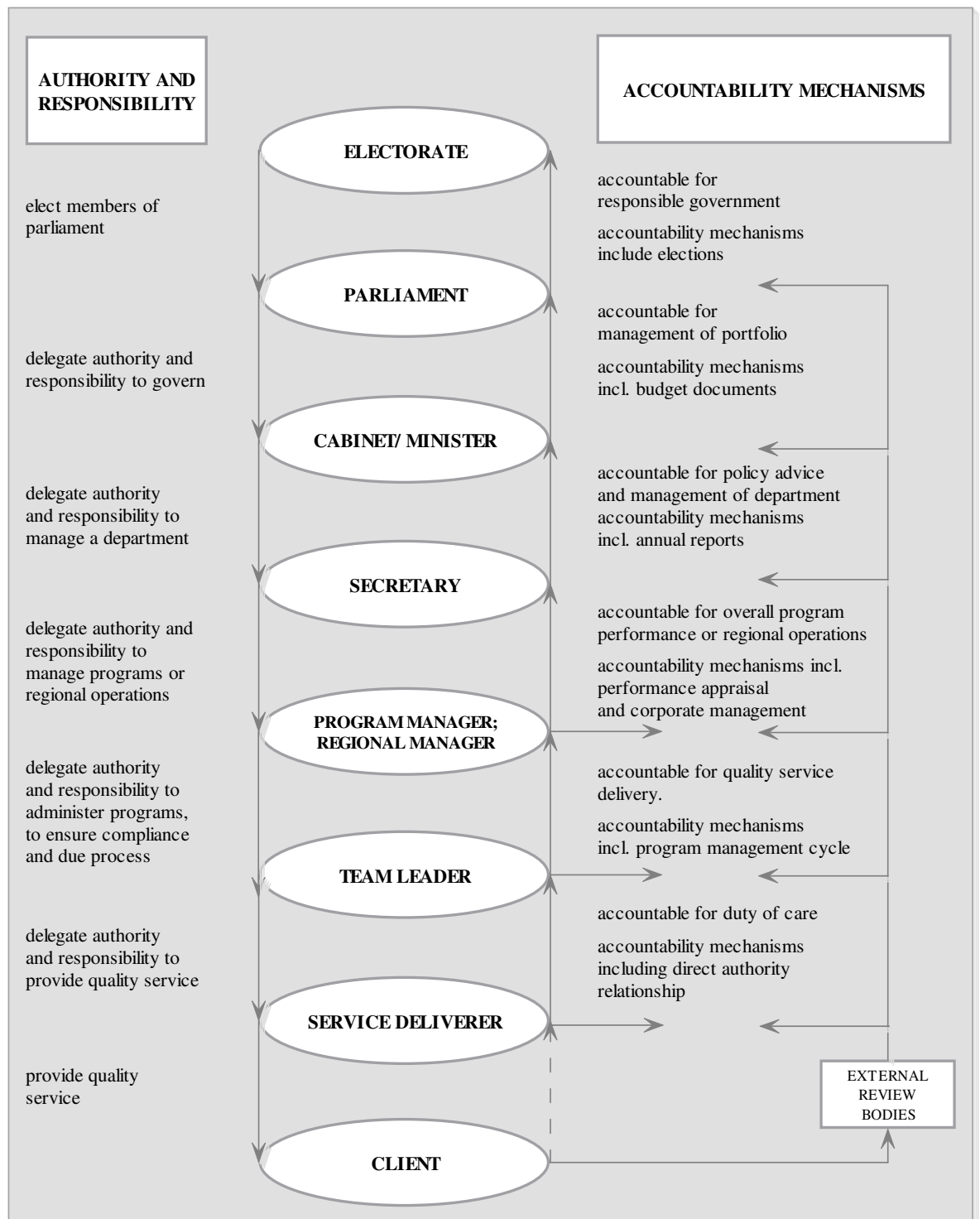
Committee on Finance and Public Administration, 1990, p. 94). It concluded, however, that for such reforms to be effective in improving parliamentary scrutiny of the executive there would need to be better integration between the extra accountability information generated thereby and the parliament's existing scrutiny processes as well as greater attention to public sector performance issues. The Committee also stressed the need for an "openness towards, and cooperation with, the Parliament's scrutiny processes on the part of the Executive, particularly public servants" (1990, p. 95). Its comments suggest that the Committee had experienced reluctance on the part of public officials to cooperate with its inquiry, no doubt attributable to their conflicting loyalties to their respective ministers and the parliament. Conflicting loyalties are also apparent in the empirical evidence of this study, which is explored in Chapters 6 and 7. The Committee (Australia, 1990, pp. 99-100) also complained about the problems of information overload associated with increasing volumes of accountability information, which led the Committee to stress the importance of receiving information "that has already been filtered by means of evaluation, assessment and review". In making its comments on the public accountability aspects of the FMI Program's reforms, the Committee emphasised the essential role of the ANAO in this new accountability framework and urged the executive to provide adequate resources for the conduct of "efficiency reviews of government programs, incorporating consideration of the adequacy of performance indicators and management information systems" (Australia, House Standing Committee on Finance and Public Administration, 1990, p. 104). The context in which these comments were made will become clearer in Chapter 5.

In 1992, a task force of agency officials entitled the Task Force on Management Improvement conducted a survey of APS agencies and officials to evaluate the achievements of a decade of public sector reform, including its impact on public



accountability. In this regard, it noted that the accountability aspects of the reforms, including performance appraisal, planning and reporting reforms and the running cost budgetary system, were intended as a counterbalance to devolution (MAB-MIAC, 1993a, pp. 113-5). From the responses to its survey, the Task Force concluded that the reforms had had a positive impact on accountability but argued that agencies and staff were far more conscious of issues associated with the devolution of responsibility than with the need for simultaneous accountability. Further, it found that “[p]eople are more likely to be willing to accept accountability responsibilities if they believe the basis for judgment will be consistent with values promoted by the parliament and government for the APS” (MAB-MIAC, 1993a, pp. 114-5). About six months after the Task Force on Management Improvement tabled its report, the Management Improvement Advisory Committee (MIAC) of the APS Management Advisory Board (MAB) published a paper (MAB-MIAC, 1993b) on Commonwealth public sector accountability in which it proposed a framework of responsibility and accountability, depicted in Figure 4.4, that endeavoured to map the authorities and responsibilities of its key actors with their respective accountability mechanisms.

**Figure 4.4: Framework of APS responsibility and accountability**



(Extract from MAB-MIAC, 1993b, p. 25, Appendix 3)

MAB-MIAC (1993b, p. 13) argued that the primary accountability of senior APS staff is to their ministers within a framework of public service responsibility and accountability. This view became embedded later in the APS values articulated in Section 10 of the

*Public Service Act 1999*<sup>43</sup>. The intention is clear: the APS is accountable to the parliament through the executive, just as Sinclair (1995, p. 225) has suggested and consistent with the theory of Westminster accountability. Sinclair warns, however, that this purportedly straight-line relationship from the bureaucracy to executive government to parliament bears little resemblance to what actually happens. His view that there is a gap between the theory and practice of Westminster accountability is shared by Mulgan (2000), Funnell (2001 and 2003) and Pallot (2003), who contend that, while the public sector reforms of recent decades have been touted as enhancing public accountability through increased levels of managerial accountability (see for example Dixon *et al*, 1996, p. 29; Lane, 1997, p. 11; and Power, 1997, p. 44), paradoxically they have also impaired the accountability relationships traditionally associated with Westminster by displacing, or at least threatening to displace, the democratic process (Pallot, 2003; see also Funnell, 2001 and 2003; Everett, 2003). Indeed, Funnell (2003, p. 112) argues that:

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<sup>43</sup> In 1999, the *Public Service Act 1922* was repealed and replaced by the *Public Service Act 1999*. The following extract from Hansard explains the essential differences between the two Acts and the rationale behind the enactment of the new legislation. The speaker, Dr Kemp, a member of the Liberal Party, was the Member for Goldstein from 1990 to 2004. At the time that this extract was recorded, he was also the Minister Assisting the Prime Minister for the Public Service.

Dr KEMP—Today is a historic day for the Australian Public Service, with the passage of the government's Public Service Bill through the Senate this morning. This legislation provides a new modern framework for the Australian Public Service which will take it into the next century. It is the biggest overhaul and reform of Commonwealth Public Service legislation in 75 years. Compared to the 1922 act, it is a short act in plain English underpinned by values and not by rules and prescriptions.

The philosophy of this act places the onus for the management of Public Service departments squarely on the shoulders of secretaries and agency heads. The agency heads have gained all of the powers and responsibilities of employers and access to all the flexibilities under the workplace relations legislation. They will exercise similar rights, duties and powers as their counterparts in the private sector. The legislation brings employment in the Australian Public Service into line with employment in the private sector. It nevertheless recognises the special character of the Australian Public Service. The red tape has been stripped away, but parliamentary scrutiny and public accountability of the Australian Public Service has been enhanced (Australia, House of Representatives, Official Hansard, 1999, p. 11982).

[w]idening the accountability of public sector managers has the effect of introducing extra levels of accountable individuals and agencies between the point of service delivery and politicians, thus providing greater protections to the ruling executive when the tide of accountability threatens to rise high enough to encompass them.

Further, structural arrangements between private and public sector bodies, such as public private partnerships (PPPs) (see, for example, Broadbent and Laughlin, 2004; Officer, 2004; and English, 2007), which have become a feature of Australian government over the past decade or so, have changed the way public goods and services are financed and provided. These new-style commercial arrangements are said to provide greater value for money for the public through, for example, risk-transfer to the private sector (English, 2004, p. 62), improved service quality and “more opportunities to assert their sovereignty as consumers” (Funnell, 2001, p. 15). Yet they also pose a threat to public accountability because much of the information about them is beyond the reach of auditors-general, thus providing governments with opportunity to limit the “intrusions of audit” (Funnell, 2003, p. 120). So, while the prevailing rhetoric on accountability, as revealed in the *Public Service Act 1999* and government publications on accountability and reform, continues to emphasise a simple, linear relationship between public servant, minister and parliament that is consistent with the theory of Westminster accountability, the reality is far more complex and dangerous for public accountability and challenging for state audit.

#### **4.4 State audit in Australia**

In its consideration of public accountability, the previous section paid little attention to the role of state audit in Australia’s public accountability framework. Yet, it has long been recognised that:

[t]he powers of the legislature to exert this control are slight, although in theory they may seem to be absolute. The Government is the executive, and it dominates the legislature under the working of the modern party system (Bland, 1968, p. 3).

Under these circumstances, an independent monitoring mechanism, such as that provided by state audit, is crucial for public accountability. Funnell (1994b, p. 178) argues that “[f]or the ‘responsibility’ of a Westminster government to be real the legislature must have the will to admonish and the means to call the executive to account, but the legislature must also have the ability to know when to discipline the executive”. For the Australian Parliament, knowledge is gained through various instruments of scrutiny and control that operate outside of the legislative process, such as:

by the questioning of ministers, by debates on the Address-in-Reply to the Governor-General’s speech and on the adjournment of the House, by the introduction of grievances, by general business motions and motions dealing with matters of urgent public importance, by ministerial statements, by the presentation of reports and by the inquiries of select and standing committees (RCAGA, 1976, p. 109).

The RCAGA recognised (1976, p. 110) that one of the most promising avenues for effective parliamentary scrutiny was the parliamentary committee system and, in particular, the PAC because of its statutory duty to examine the Auditor-General’s reports. It also argued (1976, p. 111) that the parliament’s capacity to exercise its powers of scrutiny and control would be improved by a substantial enlargement of the Auditor-General’s role and the scope of his reports on public administration. So convincing were the RCAGA’s findings in support of an expanded state audit function that they ushered in a new era, not only for state audit but also for its self-styled ally, the PAC. The intention of this section is to explore the significance of state audit in Australia’s public accountability framework and its relationship with that committee.

#### **4.4.1 Westminster origins**

As an administrative technique for protecting the interests of the sovereign, state audit can be traced back to antiquity (Normanton, 1966; Brown, 1968; and Funnell, 1994a). This

study, however, is focused on a modern form of state audit, in which an ostensibly independent auditor audits the executive on behalf of the parliament and the people. In this context, state audit has been described variously as a respected branch of state administration and an indispensable link in the process of government (Geist, 1981, p. 3), a vital component of the Westminster system (English, 2003, p. 54), an essential element of the circle of financial control (Funnell, 1994a, p. 146; Guthrie, 1994, p. 24) and a special device for making public accountability a reality (Normanton, 1966, p. 2). According to Geist (1981, p. 3), “[i]t is difficult to imagine a well-functioning, satisfactory system of state administration without the type of rigorous public accountability that state audit ensures”.

Westminster notions of state audit evolved in Britain during the nineteenth century (Normanton, 1966; see also Funnell, 1994b, 2001 and 2004) during a period of weak governments and confident parliaments, intent on reform<sup>44</sup>. Among the British statesmen primarily associated with these reforms is William Ewart Gladstone (1809-98), who, as Chancellor of the Exchequer (1852-55, 1857-66) and later Prime Minister (1868-74, 1880-85, 1886, 1892-94), played a landmark role in reforming the British system of public administration and audit. A significant milestone in this regard was the enactment of the (UK) *1866 Audit Act* which, among other things, reinforced fiduciary accountability as the critical aspect of parliamentary control of executive government (Funnell, 1994a, p. 146), established the position of Comptroller and Auditor General and the Exchequer and Audit Department, and extended the idea of appropriation audit to all departments of state. Despite the advances in public accountability that this legislation represented, however, its focus on fiduciary accountability meant that state audit was

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<sup>44</sup> For a detailed account of the evolution of state audit in Britain during the 18th and 19th centuries, see Funnell, 1994a, pp. 100-66. For added insights, see Maurois (1927).

“most obviously” concerned with accounting procedures, regularity, legality and accuracy (Funnell, 2004, p. 34; see also Funnell, 1994a, p. 146 and Normanton, 1981, p. 32). In other words, the Comptroller and Auditor General did not have specific authority to concern himself with matters of economy and waste, let alone efficiency and effectiveness. Be that as it may, however,

[b]y the time that the first Comptroller and Auditor General, Sir William Dunbar, retired in 1888 the practise of criticising instances of spending which embraced loss to the public purse had become well accepted as the legitimate concern of the central government auditor (Funnell, 2004, p. 35).

Funnell (2004, pp. 34-6) argues that this extension of state audit into matters of economy and waste had much to do with the manner in which the UK’s newly-established PAC interpreted the role of the Comptroller and Auditor General, influenced by the missionary zeal with which Gladstone and his colleagues sought to implement their “vision of good government”. Interestingly, however, this vision did not embrace the notion of an auditor working unfettered by executive control. Although there was an active discourse on auditor independence during and after the enactment of the *1866 Audit Act*, which portrayed the Comptroller and Auditor General as free from executive interference and control, in reality, state audit suffered from a lack of substantive independence from executive government. This was due, in the main, to the powers given to the Treasury in matters of staffing and forms of account (see, for example, Funnell, 1994b, pp. 177-8).

#### **4.4.2 Statutory authority**

The Westminster model of accountability and audit and the discourse on independence and parliamentary control that underscored it were to influence the drafting of Australia’s own audit legislation. One of the first pieces of legislation passed by the fledgling Australian Parliament, the *Audit Act 1901* remained in force until almost the end of the

twentieth century. The Act provided a series of measures which, as its long title suggests, were “for the Collection and Payment of Public Moneys the Audit of the Public Accounts and the Protection and Recovery of Public Property and for other purposes”. In other words, the Act was intended to secure a revenue base for the Commonwealth and establish due process in the accounting for, and audit of, the public purse (Wanna *et al*, 2001, pp. 6-7). Hence, despite its short title, the *Audit Act 1901* was an omnibus document (Funnell, 1994a, p. 257) that covered a broad range of financial and fiduciary mechanisms, of which state audit was but one, albeit significant, component<sup>45</sup>.

Like its UK counterpart, the Australian legislation originally intended auditors-general to focus on the appropriation and use of public monies, an intention evident in Senator Drake’s<sup>46</sup> comments, made during parliamentary debate on the proposed legislation.

The main principle of account-keeping is that all the moneys which are collected shall find their way into the proper fund, and that all the moneys paid out of that fund shall be applied to the right purpose, and find their way to the right persons. But the accounts of a nation or a country become very complicated, and it is the duty of the person in the position of Auditor-General to hunt through all these complexities, to watch all the accounts, and to see that the account-keeping of the country is faithfully carried out (Australia, Parliamentary Debates, 1901, p. 3219).

Further, while the parliament may have appreciated the importance of state audit for public accountability, it could be quick to censure auditors-general who were perceived to

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<sup>45</sup> This point is addressed in the Report of the RCAGA (1976, p. 378) and in the PAC’s Report 296 (Australia, JCPA, 1989, p. 239). According to the PAC, the *Audit Act 1901* was “ill-named being more accurately titled the Financial Administration and Audit Act”.

<sup>46</sup> Senator James Drake, of the Protestant Party, represented Queensland from 1901 to 1906.



have intruded into areas beyond their remit. Consider the following views expressed by Mr Makin<sup>47</sup> about Auditor-General Charles Cerutti (1926-35).

I dislike criticizing a public servant except in his presence. In this instance, the Government may think fit to answer on behalf of the Auditor-General, who is the subject of my criticism. I submit that that officer has to accept a tremendous share of responsibility for the introduction of this class of legislation. His paltry practices and meddlesome methods in trying to formulate public policy have been responsible for misrepresenting to the people the position in respect of pensions and other matters. I hope that ere long honorable members of this House will express strong resentment of the action of the Auditor-General, whose duty is really to audit the accounts of the Commonwealth, in seeking to formulate principles of public policy. He certainly should be required to answer to the public for the erroneous, false and unfair position in which he has placed our pensioners (Australia, Parliamentary Debates, 1932, p. 666).

More recent responses to Australia's state auditor by both the parliament and the executive are explored later in this study.

In 1948, the Auditor-General's mandate was extended beyond appropriation audit to allow reports on "such information as he thinks desirable in relation to audits, examinations and inspections carried out by him in pursuance of the provisions of this or any other Act" (s. 51A). The *Audit Act 1901* also included Section 54, which authorised auditors-general to recommend plans and suggestions for the better collection and payment of public monies and for improvements in the mode of keeping the accounts, monies and stores. According to Lidbetter (1986, pp. 1-2; see also Wanna *et al*, 2001, p. 206; Kimball, 1976, p. 25; and Craik, 1980, pp. 126-38), Section 54 began to be used in the 1970s for small-scale 'project audits', providing a "toe in the water" approach for staff "experimenting" with audits directed at economy and efficiency issues. In 1979,

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<sup>47</sup> Norman Makin, M.P., a member of the Labor Party, was the member for Hindmarsh from 1919-46.

however, auditors-general were given express authority, under Part VI Division 2 of the *Audit Act 1901*, to conduct efficiency audits, which were defined in Section 2(4) of the Act as:

(a) an examination of the functions performed by, and the operations carried on by, the body or person 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 the body or person for reviewing operations carried on by the body or person, and an evaluation of the adequacy of those procedures to enable the body or person to assess the extent to which those operations are being carried on in an economical and efficient manner.

Despite the audit amendments of 1979, however, the ANAO continued to conduct focused, limited-scope efficiency (project) audits under Section 54 of the Act until the mid-1990s, in parallel with the efficiency audits conducted under Part VI Division 2. The relationship between efficiency and project audit and their eventual conflation into performance audit are considered in Chapter 5.

In Chapter 1, reference was made to three principles or traditions of audit that are necessary for credibility, one of which is auditor independence. This requires that auditors be, and be seen to be, independent in the design, execution and reporting of their audits. For state auditors, this means freedom from influence or interference by executive government in three broad areas: first, in their appointment, tenure, remuneration, resourcing and removal; second in their access to audit evidence; and, third, in their ability to be heard and to report as they see fit without retribution. Consistent with this principle, the *Audit Act 1901* included numerous provisions dealing with the appointment, tenure, remuneration and removal of auditors-general as well as their powers of access, investigation and reporting. For governments in Westminster democracies, provisions

such as these have considerable symbolic value because they signal the executive's support for and deference to the traditions of Westminster accountability and the independent institution of state audit.

The independence provisions of the *Audit Act 1901* appeared to create an environment in which auditors-general could function independently of the executive. The Act was not, however, strong enough to insulate state audit entirely from the actions of hostile governments. The vulnerability of Australia's state audit function to executive interference became patently obvious during the 1980s when the work of the state auditor was seriously impeded by funding and staffing issues (see Chapter 5). This was made possible because the Auditor-General's office, the ANAO, did not enjoy the same level of protection under the *Audit Act 1901* as the Auditor-General himself. Under Section 11 of the Act, auditors-general were empowered to appoint officers to assist them in their duties, the first appointments being made in 1902 when Auditor-General Israel (1902-26) founded Australia's first audit office<sup>48</sup>. Other than this provision, however, the Act was virtually silent on the rights and responsibilities of the Auditor-General's staff and remained so for nearly 80 years, when the ANAO was finally recognised at law under Section 2 of the Act as "a branch of the APS under the direct control of the Auditor-General", making it subject, like its auditee agencies, to the *Public Service Act 1922*. Even before its official recognition at law, however, the Auditor-General's staff were subject to the Act by virtue of the Auditor-General's status under Section 25(4) as an agency head. Unfortunately, this meant that the ANAO's resources came under the scrutiny and control of auditee agencies, especially the Treasury (later, the Department of Finance), which controlled its funding, and the Public Service Board, which controlled its

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<sup>48</sup> The various names by which the Auditor-General's office has been known during its century or so of existence, and my reasons for choosing to refer to it throughout this study as the ANAO, are discussed in Chapter 5.

staffing. For Kimball (1976, p. 21; see also Australia, JCPA, 1989, p. 58 and Funnell, 1994a, p. 259), the ANAO's subordination to these auditee agencies put the independence of the ANAO, and consequently that of the Auditor-General, at risk. Their lack of substantive independence (see, for example, English and Guthrie, 2000; Funnell, 1994a; and Wanna *et al*, 2001) left auditors-general vulnerable to the executive because of its power of control over the ANAO's resources. This was to create a significant threat to the viability of ANAO performance audit during the first decade or so of its existence.

The *Audit Act 1901* experienced numerous amendments to its provisions during the ninety-six years in which it was in force. However, the amendments featured in the *Audit Amendment Act 1979*, which Funnell (1994a, p. 296) notes were “extravagantly” praised in the media and by both sides of the parliament, were arguably the most significant for state audit because they enabled at least some of the RCAGA's recommendations on public sector reform<sup>49</sup> to take effect, especially those dealing with the Auditor-General's new efficiency audit mandate. According to Funnell (1994a, p. 297), however, the amendments did little to improve the status or independence of state audit. On the contrary, Funnell argues (1994a, p. 299; see also Funnell, 1998, p. 443) that the parliament and the RCAGA were concerned more with preserving the existing level of auditor independence than enhancing it. The PAC's (JCPA 1989) analysis of the condition of state audit, undertaken ten years later, was far more critical of the quality of the Auditor-General's effective independence, and more far-reaching and controversial in its recommendations. Explored in detail later in this study, these included a proposal to replace the *Audit Act 1901* with two new acts, one dealing with financial administration and the other with state audit. After a “tortuous passage” (Wanna *et al*, 2001, p. 150)

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<sup>49</sup> The political manoeuvres associated with the introduction of efficiency audit are considered in Chapter 5.

through the parliament lasting many years, the PAC's recommendation was finally implemented in October 1997, when *the Audit Act 1901* was repealed and three new laws received royal assent: the *Auditor-General Act 1997*, which focuses on audit matters, and the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Corporations Act 1997*, which deal with the financial management and accountability of government entities.

The *Auditor-General Act 1997*, in conjunction with the complementary amendments to the *Public Accounts and Audit Committee Act 1951*, have had both practical significance for state audit and the PAC, and symbolic significance for executive government. In terms of practical significance, the 1997 legislation includes: first, a change in the Auditor-General's term of office, from permanent tenure until 65 years of age to a fixed term appointment of ten years; second, a discretionary mandate to provide advice, under which provision the Auditor-General now publishes Better Practice Guides and provides information services; and third, new responsibilities for the PAC regarding the appointment of auditors-general and their independent auditors, the ANAO's draft estimates and the audit priorities of the parliament. The symbolic aspect of the legislation can be seen in the recreation of the Auditor-General as an Officer of the Parliament, highlighting the nexus between state audit and the legislature and in the establishment of the ANAO as a statutory agency, signalling its independence, at least in theory, from its auditee agencies. The symbolism of these changes did not escape John Fahey<sup>50</sup>, the (then) Minister for Finance, who declared during the second reading of the *Auditor-General Bill 1996* that the legislation was

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<sup>50</sup> John Fahey M.P., a member of the Liberal Party, was the Member for Macarthur from 1996 to 2001.

designed to achieve a number of related purposes: foremost, the re-establishment of the Office of the Auditor-General of the Commonwealth of Australia, but in a way that both symbolically and practically strengthens the functional independence of the office beyond that available under current laws. The bill declares the Auditor-General to be an 'independent officer of the parliament', as an expression of the primary and unique relationship which the office has with the parliament. In keeping with the government's publicly stated commitment to confer genuine functional independence on the Auditor-General, a range of statutory safeguards are included in the bill to prevent inappropriate influence being exerted on the Auditor-General by either the executive or the parliament (Australia, House, Official Hansard, 1996, p. 8342).

According to Mulgan (2001, p. 25), the Liberal and National Parties, while in opposition, were quick to see the political benefits of befriending the ANAO and committed themselves to strengthening its independence. It is not surprising, therefore, that within months of its election in 1996, the Howard Liberal Coalition Government (1996-2007) (hereafter, the Howard Government) was able to effect the successful passage of the *Auditor-General Bill 1996* and its companion legislation through both houses of parliament. By recreating the Auditor-General as an Officer of the Parliament and the ANAO as a statutory authority, as well as the PAC as the Audit Committee of the parliament, the newly-elected government was able to signal its commitment to the institution of state audit, its support for the notions of auditor independence and public accountability, and its right thereby to political legitimacy as an upholder of society's fondly-held Westminster institutions and traditions. It will become evident in Chapter 5, however, that there have been numerous occasions since when the executive's views on Australia's state audit function have not been quite so fulsome.

#### **4.4.3 Contemporary role**

The previous section demonstrates that there has been a substantial change in the role of state audit since the *Audit Act 1901* was first enacted. Once focused exclusively on

probity, financial propriety and the detailed checking of government transactions, the ANAO is nowadays “a specialist public sector agency providing a full range of audit services to the Parliament, Australian Government public sector entities and statutory bodies, as well as government corporations” (ANAO, 2004b, p. 2). The ANAO’s changing role is evident in Wanna *et al*’s (2001) commissioned history of the ANAO, covering its first one hundred years of operation. Their analysis suggests, however, that the role of state audit in Australia has been influenced not only by statutory developments and historical events but also by the personalities and preferences of individual auditors-general. The story of ANAO performance audit that is told in the next chapter of this study, which encompasses the terms of office of five Auditors-General (see Table 4.2), lends support to Wanna *et al*’s analysis. It is notable that the current Auditor-General, Ian McPhee, is not included in this list. The empirical evidence for this study was gathered during Barrett’s term of office and, for this reason, McPhee’s contribution to the ANAO and its performance audit function must remain a topic for further research.

**Table 4.2: The auditors-general of interest to this study**

<b>Auditor-General</b>	<b>Term of office</b>
Don Steele Craik	1973-1981
Keith Brigden	1981-1985
John Monaghan	1985-1987
John Taylor	1988-1995
Pat Barrett	1995-2005

The ANAO’s intended outcomes, noted earlier in this study, are twofold: improvement in public administration, and assurance. The first outcome, improvement in public administration, is aimed at providing independent assessment of the performance of selected Commonwealth public sector activities including the scope for improving

efficiency and administrative effectiveness. The second outcome, assurance, is intended to provide independent assurance of Commonwealth public sector reporting, administration, control and accountability. To achieve these outcomes, the ANAO is organised into three macro programs or “output groups”: one focused on performance audit services, another on information support services (for example, Better Practice Guides), and a third on assurance (that is, financial) audit services. While the program of most interest to the present study is obviously the performance audit program, the implications of the Better Practice Guides for ANAO performance audit credibility, many of which were prepared by the ANAO’s (then) Performance Services Group during Barrett’s term of office, are also considered in this study.

#### **4.4.4 Relationship with the PAC**

An important feature of state audit in Australia is its cooperative relationship with the PAC, which the ANAO (2004b, p. 2) regards as its primary point of contact within the parliament. In turn, the PAC portrays itself as the ally (Australia, JCPA, 1989) and guardian (Australia, JCPA, 1996) of the Auditor-General and the ANAO. Committees of the Australian Parliament include House committees, Senate committees and Joint committees. The PAC, consisting of representatives from both houses, is a Joint committee. Each committee comprises a small group of parliamentarians drawn from both the government and opposition ranks whose function is to enquire into specified matters and scrutinise government activity, including legislation, public administration and policy issues (Parliament of Australia, 2001). Some committees are referred to as Select committees, which are committees established by a motion of the House or the Senate, as the case may be, to enquire into a specific matter of interest. A recent example (2008) of a Select committee is the Senate Select Committee on Housing Affordability in Australia. Others, like the House Standing Committee on Health and Ageing and the



Senate Standing Committee on Community Affairs, are committees established by standing orders of either the House or the Senate as the case may be, made at the beginning of each parliament and existing for the life of that parliament. Their role is to enquire into designated subject areas. Many of these standing committees have contributed, through their reviews of Auditor-General's reports, to the development of ANAO performance audit, particularly the House' Standing Committee on Expenditure (hereafter, the Expenditure Committee), whose early role in the institutionalisation of ANAO performance audit is considered in Chapter 5. Others, like the often opposition-dominated Senate Estimates Committees, have exercised their powers of scrutiny with considerable vigour, frequently drawing on the Auditor-General's reports for ammunition. Lastly, there are the statutory committees of the parliament, such as the Joint Committee of Public Works established under the *Public Works Committee Act 1967*, and the PAC established under the *Public Accounts and Audit Committee Act 1951*. It is the latter committee, the PAC, which is of special interest to this study, firstly, because of its long-standing relationship with the Auditor-General and the ANAO and its responsibilities as the parliament's audit committee, and secondly, because of its important contribution to the institutionalisation of ANAO performance audit.

The PAC provides a bi-partisan monitoring role on behalf of the parliament over the receipts and expenditures of the Commonwealth, the financial affairs of its authorities and the operations, resources and independence of the Auditor-General and his office. It has its origins in the (UK) Standing Committee on Public Accounts, which was established in 1862 on the recommendation of the 1857 Committee on Public Monies as a means of controlling public expenditure. This was the same committee whose recommendations led to the audit reforms of 1866 (Funnell, 1994a; Laver, 1997). Laver (1997, pp. 53-9; see also Funnell, 2004) highlights the evolving nature of the UK committee's role,

particularly during its first thirty years of operation. Initially envisaged as a mechanism for final review of the audited accounts, the Committee quickly became involved in a pursuit for reform in government accounting and reporting systems and practices, and in issues of agency administration and management. The UK committee, together with equivalent legislation enacted in NSW and Victoria, were to influence the structure and terms of reference of Australia's own PAC. Yet, there are differences between the UK and Australian committees, the most notable of which is that Australia's PAC is a joint committee that provides both houses of parliament a say in matters dealing with the public accounts. In the UK, the PAC is a standing committee of a single parliamentary chamber, namely the House of Commons. Laver (1997, p. 70-71; see also Wanna *et al*, 2001, p. 235) argues that the decision to establish Australia's PAC as a joint committee arose as a result of pressure from the Senate, the members of which believed that the only credible parliamentary mechanism of review is one that reflects the interests of both houses of parliament. With its membership drawn, by convention<sup>51</sup>, from parties in government and opposition, the PAC sees itself as a bipartisan committee (Wade, 1999, p.

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<sup>51</sup> The structure of Australia's PAC is as follows:

- 6 Members of the House of Representatives nominated by the Government Whip or Whips;
- 4 Members of the House of Representatives to be nominated by the opposition Whip or Whips or by an independent Member;
- 3 Senators to be nominated by the Leader of the Government in the Senate;
- 2 Senators to be nominated by the Leader of the Opposition in the Senate; and
- 1 Senator to be nominated by any minority group or groups or independent Senator or independent Senators.

The PAC's website (<http://www.aph.gov.au/house/committee/jpaa>) indicates that this combination is in accordance with the *Public Accounts and Audit Act 1951*. This is not strictly true. While Section 5(2) of the Act specifies the total number of members and the numbers to be drawn from each house, it does not specify how the numbers of nominees representing different parties should be determined. The Act does, however, refer to the "practice of the parliament for the appointment of members to serve on joint select committees". Also by convention, the Chair of the PAC is a member of the government. This is in direct contrast to the UK tradition, where the Chair is a member of the opposition.

55). That it prides itself in its bipartisanship can be seen in the following comments made by a PAC member in June 2004.

Remember that the JCPAA is 16 members, made up of both the House and Senate, of males and females, of members of the Liberal Party, the Labor Party, the National Party and, and there's a Democrat. ... And, well, we have a history of unanimous reports. And we work hard at that. ... We bring down unanimous reports. We sit in report consideration meetings and they're not acrimonious. We agree on wording in the report and we agree on outcomes and we agree on recommendations and that's what we put to the parliament, even though we have a completely different political outlook. OK? So it works. And it's that credibility that gets our recommendations success (Interview with PAC #1, 3 June 2004).

There have in fact been two series of PACs in Australia since Federation (1901). The first series was established under the *Committee of Public Accounts Act 1913* and remained active until its suspension by the Lyons Labor Government in 1932. The second series, still in operation, was established under the *Public Accounts Committee Act 1951*, which was renamed the *Public Accounts and Audit Committee Act 1951* in 1997. The establishment of the first PAC in 1913 marks the beginning of one of four episodes<sup>52</sup> in its history of relevance to the ANAO and its performance audit function. The first episode, which ended in 1932 with the Committee's suspension, is notable for the PAC's lack of attention to audit reports. The second episode begins in 1951, with the reconstitution of the Committee as the Joint Committee of Public Accounts (JCPA). During this episode, the PAC developed a systematic process for reviewing and reporting on audit reports.

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<sup>52</sup> Guthrie (1994) also uses an episodic approach for exploring the history of the PAC. However, the four episodes considered in this chapter are different to those identified by Guthrie because of the purpose of the analysis and the period of interest. Firstly, Guthrie's study provides a contextual analysis of PAC activities whereas the present study is interested in the nature of its relationship with state audit. Secondly, the period covered by Guthrie's study is from 1952, following the reconstitution of the Public Accounts Committee under the *Public Accounts Committee Act 1951*, until 1991. In contrast, this chapter considers the story of the PAC from its initial establishment in 1913 until its recreation as the Audit Committee of the parliament in 1997.

The third episode begins around 1979 with the addition of the efficiency audit provisions to the *Audit Act 1901* and a duty to review efficiency audits to the *Public Accounts Committee Act 1951*. This episode is distinguished by the PAC's focus on performance audit reports and its self-promotion as guardian of the Auditor-General and his office. The fourth and final episode deals with the period since 1997, when royal assent was given to the *Audit (Transitional and Miscellaneous) Amendment Act 1997*, formalising its responsibilities as the parliament's audit committee. While an exhaustive history of Australia's PAC is beyond the scope of this study, it is useful to explore these four episodes in a little more depth so as to appreciate its contemporary, symbiotic relationship with Australia's state audit institution.

#### ***4.4.4.1 Episode 1: 1913-1932***

The first PAC met in 1914, more than a decade after Federation, with a mandate to deal with matters concerning the public purse (Wanna *et al* 2001, p. 234). Its enabling legislation was tabled in November 1913 by the newly-elected Cook Liberal Government during its first sitting of parliament, along with other measures to improve parliamentary scrutiny and control. The rhetoric in support of its establishment centred on the enhancement of parliamentary scrutiny over the public sector and the extension of parliamentary control over public expenditure. This was against a backdrop of allegations of financial mismanagement and profligacy against the outgoing Fisher Labor Government (Degeling *et al* 1996, p. 34) as well as public concerns over the expansion of the public service. The Bill was duly passed on 17 December 1913 after nearly a month

of protracted debate, much of which concerned the composition of the Committee as well as its intended powers, colourfully alluded to by Mr Finlayson, M.P.<sup>53</sup>, as follows.

We are continually told that Acts of Parliament are so framed that a coach-and-four can be driven through them; but the words “or otherwise” [in Clause 2 as then proposed] provide an opening through which two such turnouts could be driven abreast. We are asked to sanction the appointment of a Committee of whose powers we know nothing, of whose duties we are only vaguely informed, and at whose responsibilities we are left to guess (Australia, Parliamentary Debates, 1913, p. 3315).

The *Committee of Public Accounts Act 1913* gave the PAC broad judicial powers to investigate matters of probity, efficiency and effectiveness in the use of public monies. Under the Act, the Committee was required to examine and report to both houses of parliament on the accounts of receipts and expenditure of the Commonwealth and on any alteration which the PAC thought desirable to the manner in which accounts were presented or kept; to enquire into any questions referred by either house; and to undertake any other duties assigned by Joint Standing Orders. What the Act did *not* expressly require the PAC to do was to examine or follow up on reports from the Auditor-General. Despite having no express duties in this regard, however, the PAC did have discretion to consider audit reports. Why it chose not to do so is unclear (Laver 1997, p. 147; see also Wanna *et al* 2001, p. 238) but it may have had something to do with concerns about the PAC’s intrusion into areas of financial expertise which its members were ill-suited to explore. Alternatively, its choice not to deal with financial matters may have been prompted by a desire not to duplicate the work of the Auditor-General or to be seen as an interfering, “pettifogging Committee of Public Accounts” (Australia, Parliamentary

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<sup>53</sup> William Finlayson, a member of the Australian Labor Party, was the Member for Brisbane from 1910 to 1939.

Debates, 1913, p. 3313). Perhaps also the PAC may simply have felt a lack of interest in financial matters, despite its statutory duties in this regard (Degeling *et al* 1996, p. 45).

Whatever the reason for its apparent lack of interest in the Auditor-General's reports, the PAC took a very liberal interpretation of its enabling legislation (Laver 1997, p. 77) during this first episode in its history and an independent view of its priorities. Between its inception in 1913 and suspension in 1932, the PAC tabled nearly 50 reports on a range of matters including probity (2), accounting procedures (6), organisational design (7), managerial prudence (5), outcome effectiveness (13) and policy advice (15) (Degeling *et al* 1996, p. 36). According to Laver (1997, p. 147), not one of these inquiries was based explicitly on the reports of the Auditor-General. However in its final report, tabled in 1932, the PAC re-focused attention on matters financial, with Report 54 providing a critique of financial management and control in the Commonwealth public sector and a frank assessment of the PAC's own effectiveness. The report concluded that there was a pressing need for fundamental reform and close cooperation between the PAC and the Auditor-General, a point that was emphasised by Senator O'Halloran<sup>54</sup> (Australia, Parliamentary Debates, 1932, pp. 3310-1) during debate on the suspension of the Committee.

In 1932, the Lyons government suspended the PAC, ostensibly for reasons of economy, despite considerable opposition from members of both houses of parliament. For example, a member of the House, Mr Nairn<sup>55</sup>, argued that there was "wide scope for an examination of the public accounts by a body representing all sections in the House, and not dominated by the Executive" (Australia, Parliamentary Debates, 1932, p. 2033).

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<sup>54</sup> Michael O'Halloran, a member of the Australian Labor Party, was a Member of the Senate from 1928 to 1935.

<sup>55</sup> Walter Nairn, a member of the National Party of Australia, was the Member for Perth from 1929 to 1931 and then of the United Australia Party from 1931 to 1943.

Highlighting the potential complementarity of the PAC and state audit, Mr Green<sup>56</sup>, the Member for Richmond, argued that

[c]ommittees of this sort do immensely valuable work, especially in regard to finance. Can honorable members imagine the shareholders of a company allowing the directors to carry on from year to year without any audit being made? The Public Accounts Committee, when functioning, exercises a continuous audit over public expenditure. It is true that we have an Auditor-General who examines public accounts, but his report is rendered late in the year. When his report is placed before Parliament, it is presented along with the Treasurer's financial statement, and no time is set aside for its discussion. The reports of the Public Accounts Committee are discussed by this Parliament as they are presented, and in this way their contents are brought forcibly before the notice of honorable members. ...

I suggest that if the reports of the Public Accounts Committee and the Auditor-General were introduced into, and considered by, this House simultaneously, honorable members would have a better knowledge of the financial position of Australia generally (Australia, Parliamentary Debates, 1932, pp. 2035 and 2038).

Past criticism of the PAC's effectiveness (Wanna *et al* 2001, p. 237), however, may well have contributed to the government's decision to suspend the Committee and yet one of the impediments that it faced was its vulnerability to the pressures imposed on it by executive government. For example, according to Senator O'Halloran:

the committee did not fulfil the purpose for which it was originally established, but that was not its fault. While Parliament conferred on it certain statutory powers to investigate Commonwealth accounts and items of departmental expenditure, and gave it power to initiate its own inquiries, it failed to provide the necessary machinery to enable it to function effectively. Furthermore, it was hampered, in doing the work for which it was appointed, by the number of inquiries which were referred to it by the Government from time to time, possibly with a view to preventing it from inquiring into certain phases of governmental expenditure (Australia, Parliamentary Debates, 1932, p. 3309).

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<sup>56</sup> Roland Green, a member of the (then) Country Party, was the Member for Richmond from 1922 to 1937.

It is outside the scope of this study to examine the fairness of these criticisms, whether of the Committee or the government of the day, but it is worth noting that the majority of the reports tabled by the PAC, particularly in its latter years, dealt with matters of policy and effectiveness rather than probity and financial accountability (Degeling *et al* 1996, p. 45). This may at times have been uncomfortable for the executive and no doubt contributed to its demise in 1932, despite vigorous opposition from both houses of parliament.

#### **4.4.4.2 Episode 2: 1951-1978**

In the activities and priorities of the first series of PACs, there is little to indicate the close relationship that would eventually develop between the Auditor-General and the PAC during the latter decade or so of the twentieth century. Over the next 20 years following its suspension, however, successive Auditors-General advocated the need for an organised forum within the parliament to deal with audit reports, and called for the re-establishment of the PAC (Wanna *et al* 2001, p. 239). The Committee was reinstated finally in 1951 with the JCPA became a statutory committee of the parliament. The *Public Accounts Committee Act 1951*, like its predecessor, provided for a joint committee with representation from both houses of parliament but, in marked contrast to the former legislation, it gave the PAC formal responsibility for the examination of audit reports. Nevertheless, according to Laver (1997, p. 149), throughout most of the 1950s successive committees interpreted the requirement to examine audit reports in a narrow sense, examining them only if they became the subject of a committee inquiry for some other reason. This was to change in 1960, however, when the PAC published Report 50. This was the first in a long series of reports that focused exclusively and systematically on matters identified in audit reports.



The Committee's change in policy paved the way for a more active relationship with the Auditor-General and his office (Funnell, 1994a, p. 358). On the one hand, the new policy gave greater publicity to the Auditor-General's recommendations, thereby increasing the value of his work (Laver, 1997, p. 149) and on the other, it gave the PAC an opportunity to review a broad range of Commonwealth government activities at the one time. Nonetheless, the Committee's capacity to provide an effective channel of communication between the Auditor-General and the parliament remained problematic. Indeed, for Auditor-General Skermer (1961-73), the manner in which his reports were tabled, the haphazard way in which issues were followed up and his inability to appear before the parliament for questioning on his reports were major weaknesses in the relationship between the legislature and state audit (Wanna *et al* 2001, p. 242). During this period the PAC was little more than a fact-finding and reporting body (see, for example, Degeling *et al* 1996, p. 30), its effectiveness undermined by its inability to capture the attention of the parliament as well as a lack of resources. The RCAGA (1976, pp. 110-4) also expressed concerns about the PAC's effectiveness, which it felt was impaired by the Committee's lack of substantive independence from the Treasury and executive government, the quality of its membership and a lack of agency respect. According to Funnell (1994a, p. 358), "[i]n 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".

#### ***4.4.4.3 Episode 3: 1979-1997***

In Australia, the late 1970s and early 1980s were a turning point, not just for the Commonwealth PAC but for PACs generally. Degeling *et al* (1996, p. 30) argue that between 1978 and 1985, the profile of PACs at both state and federal levels increased significantly, with proceedings, reports and subsequent parliamentary debates given wide coverage in the media. The move from an administrative to a managerial model of

corporate governance in the Commonwealth public sector that began to emerge during this period (Funnell, 1994a, p. 56), noted earlier in this chapter, brought with it demands for new levels of accountability and performance and a consequential change in focus for both the PAC and the ANAO. Performance (efficiency) audit is a common factor in this process.

The introduction of efficiency audits brought about a major change in the thrust of the PACs' work ... as the Committees moved from a thirty-year emphasis on the application of the principle of parliamentary control of expenditure through insistence on probity, regularity and economy in departmental spending, to a focus on the criteria of efficiency and effectiveness stemming from a widespread government and parliamentary conversion to economic rationalism (Laver, 1997, pp.157-8).

Wanna *et al* (2001, p. 243-5; see also Guthrie, 1994, pp. 96-8) in fact report a change of emphasis in the agendas of the committees of this period, consistent with the PAC's reorientation toward performance issues in audit reports. It is important to emphasise, however, that the PAC was, and remains, only one of a number of parliamentary committees with an interest in the ANAO's performance audit reports. Indeed, despite its proclaimed connection with state audit, many of the ANAO's more contentious reports have been reviewed by committees other than the PAC, which would be unlikely to waste its limited resources on matters that have been considered elsewhere. Laver (1997, p. 151) argues that the PAC's practice of avoiding duplication of effort and its policy of reporting on a select number of performance audits as part of a regular series of reports have had mixed results.

In these audit reviews the Committee, taking advantage of the outstanding ability of the Auditor-General's reports to focus narrowly on each of a large number of individual problem areas, typically commented on many small items in a single report. As a consequence, examples of major issues were not common and

Committee success in this area rather depended on the cumulative effect provided by a large number of items repeatedly commented on.

Besides its role in commenting on the Auditor-General's report, the PAC is also notable for its contribution to state audit reform. From the late 1980s until the enactment of the new financial management and audit legislation in 1998, the PAC became deeply involved in the pursuit of legislative reform "that would promote the Auditor-General's independence of the executive arm of government and strengthen the role of the parliament in ensuring that audit functions are adequately resourced" (Australia, JCPA, 1996). Its efforts yielded three separate reports of interest to this study. The first report, *Report 296: The Auditor General: Ally of the People and Parliament* (Australia, JCPA, 1989), examined the role of the Auditor-General and his office. The report was initiated out of concern for the condition of state audit in Australia, a concern that was "accelerated" (Australia, 1989, p. 3) by Auditor-General Monaghan's damning indictment of the executive's treatment of his office (Auditor-General, 1987, pp. 3-15). Report 296, the findings and recommendations of which are considered later in this study, triggered a series of inquiries and actions that ultimately led to new audit and financial management legislation as well as a new role for the PAC.

The second report dealt with an investigation undertaken at the request of the Keating Labor Government (1991-1996) (hereafter, the Keating Government), in which the PAC examined the package of legislation that had been proposed to replace the *Audit Act 1901* and amend the PAC's own enabling legislation. The outcome was *Report 331: An Advisory Report on the Financial Management and Accountability Bill 1994, the Commonwealth Authorities and Companies Bill 1994 and the Auditor-General Bill 1994, and on a Proposal to Establish an Audit Committee of Parliament* (Australia, JCPA 1994). The report made thirty-nine recommendations including a proposal that the PAC

be reconstituted as the Audit Committee of the parliament. In presenting its case, the PAC referred to its long history of liaison with the Auditor-General and its statutory obligation to examine the Auditor-General's reports, which it argued had given it a strong understanding of the issues affecting the Auditor-General and his office and a detailed insight into the Auditor-General's activities and the efficiency with which they were conducted (Australia, JCPA, 1994, p. 100). While the Keating Government accepted many of the PAC's thirty-nine recommendations, the recommendation to establish the PAC as the parliament's Audit Committee was not one of them.

The third and final PAC report dealing with state audit, undertaken this time at the request of the incoming Howard Government in 1996, was *Report 346: Guarding the Independence of the Auditor-General* (Australia, JCPA, 1996). This was focused on the legislative framework required to support the Auditor-General's functional independence. Recognising this inquiry as of profound importance for public accountability in Australia, the PAC lobbied once again for its reconstitution as an audit committee and for the resources for the effective conduct of such a role.

Following the Minister's advice that the JCPA is likely to assume the functions of an Audit Committee of the Parliament, the Committee has designed a model in which the Audit Committee would support the independence of the Auditor-General on behalf of the Parliament. The Audit Committee itself will become a crucial link in the chain of accountability. For the same reason that is essential that the Auditor-General is adequately resourced to fulfil its audit functions, it is also essential that the Audit Committee of the Parliament be properly resourced to guard the independence of the Auditor-General (Australia, 1996, p. 8).

The PAC also recommended that it should be renamed the Joint Committee of Public Accounts and Audit (JCPAA). Both recommendations were accepted by the Howard Government.

#### 4.4.4.4 Episode 4: 1998 +

When the new package of audit and financial management legislation received royal assent towards the end of 1997, it ushered in a new era for the Auditor-General, the ANAO, the APS and the PAC. Among other things, the new legislation strengthened the independence of the Auditor-General and gave the PAC new roles and responsibilities in the appointment of auditors-general, the monitoring of ANAO resources and forward estimates<sup>57</sup>, and the communication of the audit priorities of the parliament to the Auditor-General (see Appendix F). The PAC was also given extended powers regarding the appointment of the Independent Auditor, who is appointed under Part 7 of the *Auditor-General Act 1997* to audit the ANAO. A member of the organisational field of ANAO performance audit (see Figure 3.4), the Independent Auditor is empowered to conduct both financial and performance audits in the ANAO. A report on the “value for money” provided by the ANAO (Coleman, 2004) and one on the ANAO’s contract management arrangements (Coleman, 2002) provide two examples of the Independent Auditor’s work. The PAC exercised its powers of appointment for the first time in February 1999 when it recommended the appointment of Michael Coleman as the ANAO’s Independent Auditor. It is worth noting, however, that the PAC is not concerned exclusively with state audit matters but instead has considerable discretion in the kinds of investigations that it conducts. A sense of the kinds of topics that interest the Committee can be obtained from the selection of reports listed in Appendix G. Nonetheless, its quarterly investigations of the Auditor-General’s performance audit reports remain a significant component of its work.

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<sup>57</sup> The PAC exercises its powers of scrutiny of ANAO resources via the tabling of a parliamentary paper in each house, advising parliament of the Committee’s conclusions regarding the adequacy of the annual draft estimates. An example of such a report is provided at Appendix E.

The duties and powers that the PAC now possesses under the *Public Accounts and Audit Committee Act 1951*, as amended, have led to claims that the Committee is among the most powerful of Australia's parliamentary committees and the most successful in having its recommendations accepted by the government. For example, Bob Charles<sup>58</sup>, the (then) Chair of the Public Account and Audit Committee, claimed that:

[w]e have a veto over the appointment of the Auditor-General and the independent auditor, and approval powers over the budget of the Audit Office. ... We examine the Audit Office budget and report on that to the parliament. In effect, the committee has budget powers. We can also inquire into anything affecting the income or expenditure of the Commonwealth ("Straight shooter", *About the House*, March 2004, p. 26).

Notwithstanding its apparently powerful position, however, the PAC remains a "creature" of the parliament (Laver, 1997, p. 14; see also Funnell, 2003, p. 127), which appoints and empowers it and to which it reports. Further, although its members may see the PAC as powerful and independent of the executive<sup>59</sup>, it is not immune from pressure from that quarter, due in part to the political allegiances of its members, which Funnell (2003, p. 127) argues must ultimately impact on their commitment, and in part to the PAC's ongoing reliance on the executive for its resources. Despite the rhetoric concerning its role as guardian of the Auditor-General and the ANAO, there are clearly limits to the

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<sup>58</sup> Bob Charles, MP, a member of the Liberal Party, was the Member for La Trobe from 1990 to 2004.

<sup>59</sup> According to the PAC's (2007) website:

[t]he ability to consider and report on any circumstances connected with reports of the Auditor-General or with the financial accounts and statements of Commonwealth is one of the main sources of the JCPAA's authority - it gives the Committee the capacity to initiate its own references and, to a large extent, to determine its own work priorities. This power is unique among parliamentary committees and gives the JCPAA a significant degree of independence from the executive arm of government.

The PAC's belief in its independence is not new. For example, in the late 1960s, Reid (1968, p. 29) claimed that the Committee functioned with "absolute independence" because of its ability to determine its own work program and to develop its own methods and procedures.

amount of protection and support that the PAC can be expected to provide in the face of a belligerent executive government.

## **4.5 Summary and conclusion**

Chapter 4 has explored the institutional environment and organisational field of ANAO performance audit, focusing in particular on the actors and concepts that have special relevance for the study's central theme. The intention has been to establish a platform for understanding the institutionalisation of ANAO performance audit, which is considered in Chapter 5. Focused on the efficiency and effectiveness of government agencies, ANAO performance audit, along with its financial audit counterpart, is an integral part of Australia's modern, multi-dimensional, public accountability framework. With the APS responsible to the executive and the executive to the parliament for the management of public resources, this public accountability framework is isomorphic with the Westminster convention of ministerial responsibility. This holds that ministers are accountable and responsible to the parliament for their actions and that the parliament has the power to expel ministers from office for breaches of that responsibility, although this rarely occurs in practice. Nonetheless, the parliament's powers of scrutiny over the executive and its officials is one of the hallmarks of a Westminster-style system of responsible government like Australia's, a power that is exercised in numerous ways including question time and parliamentary committees of inquiry. The PAC, a statutory committee representing both sides of politics and both houses of parliament, is especially important in this regard because of its role as the parliament's Audit Committee and its long-standing relationship with state audit, which is a vital instrument of parliamentary scrutiny and control. The next chapter reveals how this instrument has been sharpened by the emergence of ANAO performance audit, thereby enhancing its ability explore the failings of the executive and its agencies. Yet, Chapter 5 also reveals the difficulties that

ANAO performance audit encountered during its early years in achieving widespread stakeholder acceptance as a credible audit function, due in part to the steep learning curve on which its auditors found themselves when the function was first introduced, in part to its introduction in advance of the public sector reforms that made sense of it, and in part to the reactions of hostile executive governments, bent on limiting their exposure to the credible threat that ANAO performance audit posed for them.

Chapter 4 has also drawn attention to significant discrepancies that exist between the myth and reality of Westminster accountability, one aspect of which relates to the notions of responsible government and ministerial responsibility, which are undermined by the executive's ability in practice to dominate the parliament and its legislative agenda. Yet the tensions that exist within the parliament, even between the executive and its own backbenchers, mean that its power of control over the parliament is far from absolute. Indeed, the next chapter provides numerous examples of the parliament's willingness and capacity to challenge the executive, with ANAO performance audit providing a catalyst for parliamentary inquiry and debate.

The other questionable Westminster myth is that of auditor independence. Chapter 5 will reveal how the emergence of ANAO performance audit exposed the vulnerability of state audit to Executive interference, especially under the (former) *Audit Act 1901*. It will also demonstrate that while the policies and practices of NPM provide the rationale for ANAO performance audit, they can also create obstacles for the successful conduct of the Auditor-General's work.



# **THE CREDIBILITY OF ANAO PERFORMANCE AUDIT**

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

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## **CHAPTER 5**

# **INSTITUTIONALISATION AND THE ACHIEVEMENT OF INSTITUTIONAL CREDIBILITY**

*Once upon a time there was a government auditor whose only duty was to make sure no-one fiddled the till (Auditor-General, 1987, p. 3).*

### **5.1 Introduction**

In exploring the institutional environment of ANAO performance audit, the previous chapter provides an essential background and context for this study of performance audit credibility. Chapter 5 is the first of three chapters, however, that deal directly with the study's central theme, which has both a macro and a micro-level focus. At the macro level, the study seeks to establish the institutional credibility of ANAO performance audit, while, at the micro-level, performance audit credibility is analysed from the point of view of those most intimately involved in the process as auditor, auditee or parliamentary reviewer. This chapter deals with the macro level, its intention being to show how

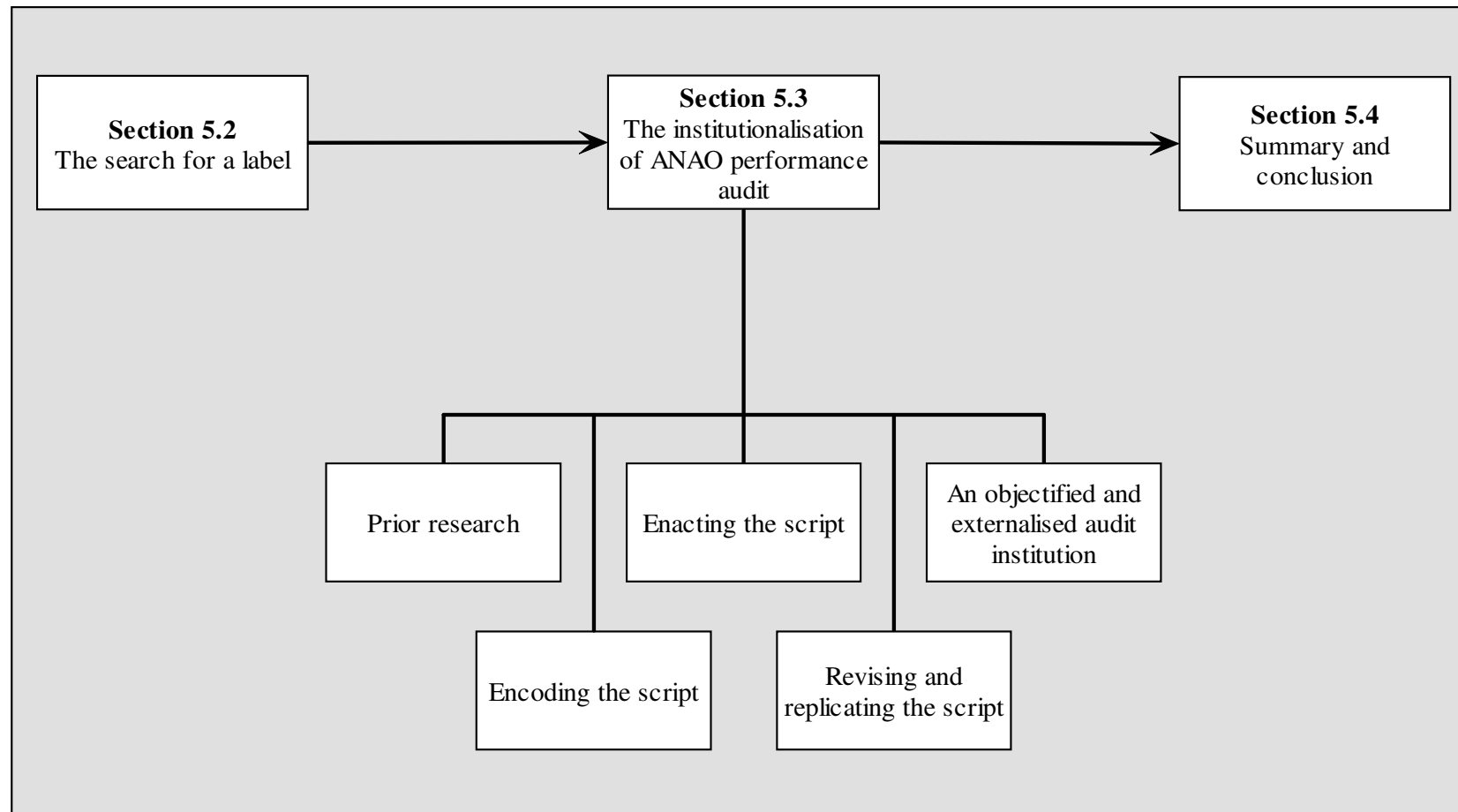
ANAO performance audit evolved from an experimental idea to a credible function of state audit and a taken-for-granted feature of Australia's modern, Westminster-style system of public accountability.

Chapter 3 argues that ANAO performance audit can be conceptualised as an institution in its own right with its own structures, goals, work practices, standards, skill sets, statutory provisions, reporting frameworks and social expectations that set it apart from the Auditor-General's more traditional financial audit responsibilities. It follows, therefore, that the evolution of ANAO performance audit can be viewed as a process of institutionalisation and legitimisation. Of the various forms of legitimacy considered in Chapter 3, the most significant for this study is cognitive legitimacy, which Suchman (1995) argues is possessed by an institution when it is accepted as plausible (that is, credible) and comprehensible. Through the theoretical lens provided by Barley and Tolbert's (1997) model of institutionalisation, Chapter 5 tells the story of how ANAO performance audit became institutionalised, legitimated and, thereby, accepted by institutional stakeholders as a credible function of state audit. It is important to stress that there is no intention here to provide an exhaustive history of either the ANAO or its performance audit function. Rather, the intention is to identify and examine the historical milestones that have special relevance for its institutionalisation and the achievement of its institutional credibility.

Chapter 5 is structured as follows (see Figure 5.1). Section 5.2 explains the various labels that auditors-general have applied over the years to their extended audit activities, including project and efficiency audit, and why they eventually settled on the term *performance audit*. This explanation is necessary to add clarity to later sections of the chapter. Next, Section 5.3 explores the origins and evolution of ANAO performance

audit, using Barley and Tolbert's (1997) model of institutionalisation as a framework for analysis. In so doing, the chapter draws on numerous archival sources, including audit, parliamentary committee and government reports; the Hansard of the Australian Parliament; the proceedings of, and submissions to, various parliamentary inquiries; newspaper articles; and the academic and professional literatures. It also draws, to a limited extent, on original empirical evidence gathered during my conversations with the study's stakeholder-participants. Then, to conclude this chapter, Section 5.4 summarises the factors that lend support to the chapter's central argument that ANAO performance audit achieved institutional credibility some time during the first half of the 1990s, before the end of Auditor-General Taylor's controversial term of office.

**Figure 5.1: The themes of Chapter 5**



## 5.2 The search for a label

For much of the twentieth century, state audit in Australia was focused predominantly on financial regularity and compliance. During the 1970s, however, an emerging interest in a more responsive, flexible and accountable federal bureaucracy (Hamburger, 1989, p. 6) and value for money in the allocation and use of public resources led to a broadening of the Auditor-General's official mandate. The first step in this process was taken early in Auditor-General Craik's term of office (1973-81) when he reinterpreted his authority under Section 54 of the *Audit Act 1901* and began to experiment with project audits. Essentially, these were extended-scope financial audits, intended to investigate material inefficiencies detected during the ANAO's more traditional audit activities (Kimball, 1976, p. 25). Notwithstanding their extended scope, however, Funnell (1994a, p. 260) argues that project audits remained firmly tethered to the regularity and legality basis of traditional audit. The next step in this broadening of the audit mandate occurred in the mid-1970s when Craik introduced the ANAO to what was then described as operational audits (Craik, 1980, p. 126; see also Kimball, 1976, pp. 29-33) but which also came to be known as project audits (Monaghan, 1987, p. 72). These dealt in the main with the effectiveness of information systems. The third and final step is bound up with the efforts of Craik and the RCAGA to add efficiency audit to the Auditor-General's official mandate, the story of which is told in the following section. This was achieved in 1979 when Part VI Division 2 was added to the *Audit Act 1901*.

Throughout the 1980s and early 1990s, the ANAO conducted project and efficiency audits in tandem, the former under Section 54 of the Act and the latter under the new efficiency audit provisions. For Craik, efficiency and operational (project) audits were clearly distinguishable because:

[o]perational auditing is concerned with the examination and improvement, if possible, of existing systems. Efficiency audits involve a more extensive inquiry which includes consideration of whether the strategy which the systems aim to implement is the appropriate method of achieving the (given) objective (Craig, 1980, p. 127).

Yet for two of Craig's successors, Monaghan and Taylor, project and efficiency audits were seen as very similar to each other, the reasons for which are considered later in this chapter. Indeed, during an inquiry into public service efficiency review mechanisms in April 1985, Auditor-General John Monaghan, newly appointed to the position, admitted that none of his officers had been able to explain to him the difference between the two kinds of audits. Instead, it appeared to Monaghan that:

a thing was called an efficiency audit if it happened to have been started in the Efficiency Audit Division, and it got to be called a major project audit if it got to be started in one of the others (Australia, House Standing Committee on Expenditure, 1985a, p. 223).

For Monaghan's predecessor, Keith Brigden (1985-7), the only real differences between project and efficiency audits were to be found in their scope and focus (Australia, House Standing Committee on Expenditure, 1985a, p. 438; see also Funnell, 1998, pp. 449-50; Adams, 1986, p. 190, and Australia, JCPA, 1989, pp. 135-42), a view echoed many years later by Auditor-General John Taylor, when he described project audits as:

basically smaller versions of efficiency audits. The degree of the examination into an auditee's operations is not as extensive as an efficiency audit and thus the scope and time necessary to complete a project audit are significantly reduced (Auditor-General, 1993, p. 25).

Nevertheless, there were significant differences between project and efficiency audits, especially in terms of the Auditor-General's powers and responsibilities under the *Audit Act 1901*, including their respective reporting obligations. The efficiency audit provisions

required the Auditor-General to publish a report on every efficiency audit and to allow time for auditee feedback on audit findings before the finalisation of each report. In contrast, although they were reported to the parliament as a matter of course (Australia, House Standing Committee on Expenditure, 1985a, p. 239), there was no legal obligation on the Auditor-General to report the outcomes of project audits or to provide opportunity for auditee comment. Although more formal in their reporting requirements, the efficiency audit provisions enabled access to activities not covered elsewhere in the Act, including Section 54, especially the Australian Taxation Office's processes for collecting revenue. They also allowed for audits of Commonwealth statutory authorities (1985a, p. 240), albeit conditional on the request of the parliament or the relevant Minister.

The term *comprehensive audit*, first used by Brigden in 1983 (Auditor-General, 1985, p. 3) to refer to the ANAO's full range of audit activity and popularised under Monaghan, is yet another term with which performance audit has been associated. For Monaghan, for example, efficiency audits were part of a "the whole process of a comprehensive audit of the various agencies of the Government" (Australia, House Standing Committee on Expenditure, 1985a, p. 223). Notwithstanding, under Monaghan the term *performance audit* also became prominent as an umbrella term for the ANAO's project and efficiency audits. Indeed, according to Monaghan:

[o]ne can, in fact, identify two separate streams of development of performance auditing. On the one hand, an evolutionary broadening of auditing activities from financial accountability to wider regularity aspects, going on to address ways of improving management practice and procedures; and on the other hand, a conscious and deliberate endeavour to devise a new type of auditing process, in which performance would be the primary focus. These days, clearly, the two streams are converging (Monaghan, 1987, p. 72).



Monaghan's use of *performance audit* is consistent with a resolution made by INTOSAI in 1977, and subsequently re-affirmed in 1986 (Hill, 1987, p. 56), to adopt the term for audits oriented towards the performance, effectiveness, economy and efficiency of public administration. Yet, despite the widespread use of the term in speeches and publications, individual performance audits continued to be distinguished as either project or efficiency audits until the end of the Taylor era. Following Pat Barrett's appointment as Auditor-General in 1995, however, the terms *efficiency audit* and *project audit* largely disappeared from the lexicon of the ANAO. Then, once the *Auditor-General Act 1997* came into effect, the term *performance audit* became recognised at law in Section 5(1) of the Act, which defined it as "a review or examination of any aspect of the operations of [a] person or body".

In summary, a diversity of labels has been used over the years for the ANAO's extended audit activities, particularly during the 1980s when they were known variously as project, comprehensive and performance audits, or combinations thereof (see, for example Guthrie and Parker, 1999, p. 316, Table 3). They were also conducted under both the general provisions (Section 54) of the *Audit Act 1901* and its efficiency audit provisions. That is to say, following Brigden's appointment as Auditor-General in 1981, there was a blurring between the notions of project and efficiency audits. Notwithstanding the convergence between project and efficiency audits, however, the present study is about audits conducted under Part VI Division 2 (that is, the efficiency audit provisions) of the *Audit Act 1901* and, more recently, Part 2 Division 2 of the *Auditor-General Act 1997*. In this chapter, I refer to all audits conducted under these provisions as performance audits, regardless of contemporary ANAO usage, with one important exception. Audits conducted by the Efficiency Audit Division (hereafter EAD) during the Craik and Brigden years are referred to in this chapter as efficiency audits to emphasise the

uncertainty that existed during the EAD's short period of existence (1978 to 1984) regarding the place of effectiveness in the audit mandate.

### **5.3 The institutionalisation of ANAO performance audit**

#### **5.3.1 Prior research revisited**

Chapter 1 notes that the story of ANAO performance audit has been told by numerous scholars over the years, including Glynn (1985a, 1985b and 1987), Hamburger (1989), Funnell (1994a and 1998), Guthrie and Parker (1999), English and Guthrie (2000) and Wanna *et al* (2001), each of whom approaches the story from a different angle. Glynn's interest is cross-cultural, motivated initially (Glynn, 1985a) by a desire to promote the adoption of VFM audit in the UK, his (then) country of residence<sup>60</sup>. With his use of material supplied by the audit agencies themselves, his discussion of events is necessarily descriptive and, as regards the ANAO (see especially Glynn, 1987), partly in dispute (Parker and Guthrie, 1991). Hamburger (1989) is focused exclusively on the emergence of ANAO performance audit under Craik, Brigden and Monaghan, with its turbulent history shaped, in his view, by the personalities and preferences of individual auditors-general. In Funnell (1994a and 1998) and Guthrie and Parker (1999), the story is told with a thespian analogy. Funnell's (1994a and 1998) focus is predominantly the history of the EAD, which he relates as a social drama. His intention in so doing is to expose the methods by which the executive limits state audit and maintains its hegemony over it. For Guthrie and Parker (1999), the history of ANAO performance audit is akin to an ancient masque play in which sponsors, actors and audience alike continually create and revise the execution of the drama. Their theatrical metaphor is used to emphasise their argument that performance audit as a malleable social construct rather than a definitive review

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<sup>60</sup> At the time he published his first study on VFM auditing (Glynn, 1985a), based on research sponsored by the Institute of Chartered Accountants in England and Wales, Glynn was a member of the Department of Economics at Exeter University.

technology. Like Funnell (1994a and 1998), English and Guthrie's (2000) interest is in the political struggles associated with ANAO performance audit but this time in terms of the parliament's right, through the Auditor-General, to oversee the accounts and management practices of executive government. Lastly, Wanna *et al's* (2001) commissioned history of the ANAO, written to commemorate its centenary, explores (among other things) the history of ANAO performance audit from the 1970s until the end of the twentieth century.

A common characteristic of this literature is that the unfolding story of ANAO performance audit is presented as a progression of stages, each one notable for particular events and interactions among social actors. Included among these events and interactions are: the 1973 appointment of an Auditor-General who believed passionately in enhancing the efficiency of the APS and widening the parliament's powers of scrutiny and control; the RCAGA inquiry that provided the initial impetus for statutory recognition of performance audit; the establishment of the EAD to take responsibility for the design and implementation of the Auditor-General's new efficiency audit mandate; the enactment of significant legislation such as the *Audit Amendment Act 1979* and the *Auditor-General Act 1997*, which gave and then confirmed the Auditor-General's performance audit mandate; the responses to contentious audit reports of parliamentary committees such as the PAC and the House Standing Committee on Expenditure, which were at first highly critical of the ANAO's efforts; the landmark review of the Auditor-General and his office (Australia, JCPA, 1989) known as Report 296; and, finally, the responses of three auditors-general, namely Brigden, Monaghan and Taylor, to the reactions of the executive and its agencies to their respective audit reports.

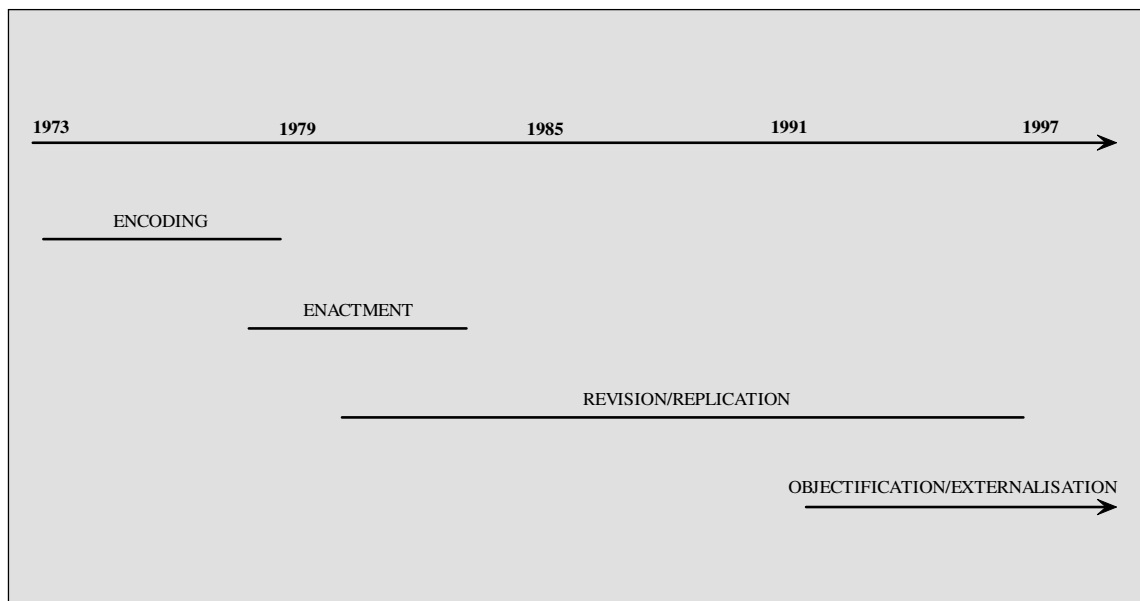
The story of ANAO performance audit told in this chapter is focused on how the function achieved institutional credibility. This is told through a progression of stages which, in keeping with the study's theoretical lens, is based on Barley and Tolbert's (1997) recursive model of institutionalisation (see Chapter 3). This model features four stages: encoding, enactment, revision/replication and objectification/externalisation. For ANAO performance audit, the encoding stage extends from Craik's early experiments with project/operational audit, noted in Section 5.2, to the legislative enactment of efficiency audit in 1979, and it includes the establishment of the EAD, which was given responsibility for designing and implementing the function. The enactment stage covers the period in which the EAD's sixteen audits were conducted. The third stage, revision/replication, is bound up with the struggles of ANAO performance audit under Brigden, Monaghan and Taylor to achieve acceptance among institutional constituents as a credible function of state audit. The fourth stage, objectification/externalisation, is the final part of the institutionalisation process, when ANAO performance audit became institutionalised, legitimated and taken for granted as a credible part of Australia's modern public accountability framework.

Nevertheless, while Barley and Tolbert's four stages of institutionalisation provide a useful framework for exploring how ANAO performance audit evolved into a credible state audit function, it is important to emphasise that, for ANAO performance audit, the process of institutionalisation was more complex than the one represented in their simple, sequential model. In the first place, it progressed at two levels in parallel, one focused on the establishment and clarification of the Auditor-General's legal mandate for performance audit and the other, with its design and implementation in the field. In the second place, the stages overlapped with one another such that the points at which one

stage ended and the next began are unclear. For this reason, the model depicted in Figure 5.2 is intended to provide only a general indication of the timing of each stage.

Barley and Tolbert (1997, p. 100) argue that to investigate how patterns of interaction lead to the emergence of a new institution requires “[a]n enormous amount of luck or prescience ... to recognize an emerging institution and then gather data on relevant, ongoing actions or interactions”. It is fortunate and, indeed, fortuitous that the relatively recent emergence of ANAO performance audit provides an opportunity to do just that. Thus, one of the secondary contributions of this study is its ability to demonstrate an application of Barley and Tolbert’s model of institutionalisation on an emerging institution.

**Figure 5.2: The institutionalisation of ANAO performance audit**



### **5.3.2 Encoding the script**

#### ***5.3.2.1 Creating the statutory mandate***

In Barley and Tolbert's model (1997, pp. 99-103), institutionalisation begins with the encoding of a script, a metaphor for the development of the principles, rules and patterns of acceptable behaviour of the emergent institution. The first attempts at encoding a script for ANAO performance audit are found in Craik's early experiments with project and operational audits and, in the public arena, in the debates and deliberations associated with the RCAGA, to which Craik was an active contributor. The idea of performance audit was conceived in Australia during a time of intense political upheaval, bound up with the 1972 election of the reformist Whitlam Government after 23 years in opposition and its controversial dismissal from office in 1975 (Funnell, 1998; Guthrie and Parker, 1999). Frustrated by a perceived lack of support for its reforms from the senior echelons of the public service (see Funnell, 1994a, p. 261-6 and 1998, p. 443; see also Colebatch, 2002, p. 95), the Whitlam Government established the RCAGA in 1974 to rethink the principles and practices of Australian government administration (RCAGA, 1976, p. 3). Assisted and encouraged by Craik, the RCAGA was a significant player in the scripting of ANAO performance audit, firstly in recasting the Auditor-General as an efficiency auditor and secondly, having done so, in redefining his mandate. First, however, the RCAGA needed to consider the concept of efficiency itself and the prerequisites for promoting it. Contrary to the views of some contemporary authorities on public administration (see RCAGA, 1976, p. 32, note 1), the RCAGA interpreted public sector efficiency as an all-embracing concept that included the notions of economy and effectiveness as well. In particular, it argued that:

[e]ffectiveness is concerned with the relationship between purpose and result. Thus, an action or program is effective if it achieves the purpose for which it was initiated. But efficiency involves additionally a consideration of the resources used in achieving the result. A program is efficient only if its effectiveness is achieved with an economic use of resources. Efficiency is therefore also concerned with the relationship between resources used and the results achieved: between 'input' and 'output'. It comprehends both economy in this sense and effectiveness (RCAGA, 1976, pp. 31-2).

According to the RCAGA (1976, p. 33), efficiency, as so defined, would be promoted if: firstly, government programs had clear objectives; secondly, there was scope for individual decision-makers and managers to exercise initiative; thirdly, agency managers were supported by adequate information systems and well-trained staff; fourthly, the APS employed participative management practices; fifthly, there were greater opportunities for managers to act entrepreneurially; and sixth, and finally, there was a system of accountability for performance. That is to say, the RCAGA believed that public sector efficiency would be enhanced if agency managers were given clearer responsibility for managerial functions and the means and incentives to exercise that responsibility (RCAGA, 1976, p. 44; see also Funnell, 1994a, pp. 271-4; and Australia, House Standing Committee on Expenditure, 1980, p. 3). These ideas are collectively referred to in the RCAGA's report as *accountable management*. Further, it argued that public sector efficiency should be subjected to critical, external review through a regular program of efficiency audits, designed to "bring before ministers, Cabinet and Parliament both the assessment itself and the data on which it is based" (RCAGA, 1976, p. 46). In other words, the RCAGA's vision of accountable management was the rationale for efficiency audit<sup>61</sup>. Notions of accountable management and efficiency

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<sup>61</sup> An exhaustive analysis of the Commission's deliberations and findings in this regard is beyond the scope of this study. The interested reader is directed, instead, to Cutt (1977); Smith and Weller (1978) and, more recently, Funnell (1994a, pp. 271-6).

audit were unwelcome to the senior public service at that time, however, who saw its role “less in terms of executive or managerial efficiency than in expressions of thoughtful analysis and co-ordination” (Scarrow, 1957, p. 88; see also Spann, 1973, p. 10; and Wiltshire, 1975, pp. 183-93). There was therefore a tendency for positions to be taken before the Commission in defence of bureaucratic tradition.

With efficiency audit established as part of a package of reforms, the RCAGA then contemplated who should fulfil the role of efficiency auditor. There were several contenders, including the Public Service Board, the Department of Prime Minister and Cabinet and the Treasury<sup>62</sup>. In the end, the RCAGA chose the Auditor-General despite opposition from some quarters to his nomination for the role. Professor Spann (RCAGA, 1976, Appendix Volume Four, p. 170), for example, argued that the measurement of efficiency was intrinsically difficult and should not be given to “newly-recruited and zealous ‘efficiency experts’” to measure. Two factors, however, influenced the RCAGA’s decision (RCAGA, 1976, p. 49; see also Funnell, 1994a, pp. 277-86; and Guthrie and Parker, 1999, pp. 312-3). First, as an after-the-event review of performance, it felt that efficiency audit was similar in principle to traditional financial audits and that information examined in the course of such audits would also be relevant for efficiency review. Second, the Auditor-General’s independence and his link with the parliament’s legislative and historical authority were attractive to the RCAGA, which saw these characteristics as essential for the assessment of executive performance.

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<sup>62</sup> A useful analysis of the cases presented by each of these bodies can be found in Funnell (1994a, pp. 277-86).



Next, the RCAGA turned its attention to the scope of the Auditor-General's proposed mandate. A major influence on the RCAGA's deliberations in this respect was the comprehensive audit model used by the GAO. This distinguished three levels of audit:

**Financial and compliance:** whether financial operations are properly conducted, financial reports are presented fairly and an audited agency has complied with applicable laws and regulations.

**Economy and efficiency:** whether an agency is managing or utilising its resources in an economical and efficient manner and encompasses the identification of inadequacies in management information systems, administrative procedures or organisational structure.

**Program results (effectiveness):** whether the desired results or benefits are being achieved, whether the objectives established by the legislature or other authorising body are being met, and whether the agency has considered alternatives which might yield desired results at a lower cost.

(Adapted from RCAGA, 1976, pp. 375-6)

Although their reasoning was questioned later by Cutt (1977) and Pugh (1987), both Craik and the RCAGA concluded (1976, pp. 49 and 376; see also Adams, 1986, p. 192; Wanna *et al*, 2001, pp. 206-7) that program results (effectiveness) audit should not be included in the mandate because it would lead auditors-general to pass judgement on government policy, an action that would be contrary to Westminster convention. Accordingly, the RCAGA (1976, p. 376) recommended that the Auditor-General's mandate be extended from financial and compliance audits, which were his usual theatre of operations, to economy and efficiency audits directed "to any aspect of the organisation of a department or agency concerned which suggests a wasteful use of money, manpower or other resources". In so doing, it noted that it may not be easy to

draw a line between the efficiency and effectiveness aspects of programs under review<sup>63</sup>.

Even in principle, there may be some overlap. The results or benefits contemplated will generally be a complex, and sometimes competitive, set of objectives derived in varying degree from differing personal and political motivations. The assessment of success in achieving the objectives will therefore involve judgment not merely about financial and administrative competence but also about political considerations with which, in theory at least, the Auditor-General should not be involved (RCAGA, 1976, p. 376).

Missing from explicit consideration in the RCAGA's report, however, are audits of *administrative* effectiveness, which focus on the ability of the audited body to monitor its own program effectiveness (Cutt, 1977, p. 44; see also Mr Willis, Australia, House, Parliamentary Debates, 1978, p. 2298<sup>64</sup>; Dillon, 1985, pp. 254-5). The extent and limits of the RCAGA's proposed mandate and the ambiguities surrounding administrative effectiveness are depicted in Figure 5.3. The RCAGA's failure to articulate a clear position on administrative effectiveness was to present a challenge for ANAO performance audit during the enactment stage of its institutionalisation.

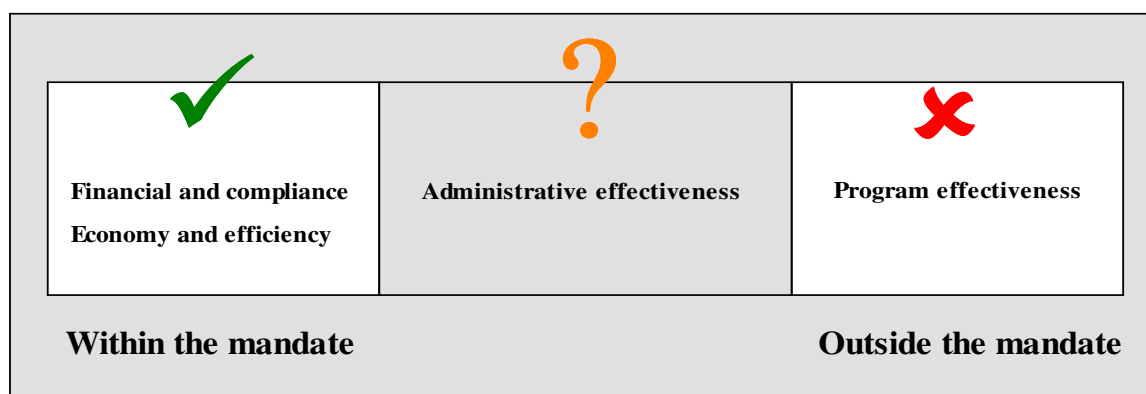
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<sup>63</sup> In order to cope with problems of overlap as well as provide information for government planning, the Commission suggested that program effectiveness studies be conducted by the Department of Prime Minister and Cabinet, drawing heavily on the work of the Auditor-General as revealed in his reports. In other words, the Commission's script for ANAO performance audit involved a sharing of responsibility for the monitoring of efficiency, interpreted in its widest sense, involving collaboration between members of its organisational field.

<sup>64</sup> Ralph Willis, M.P., of the Australian Labor Party, was the member for Gellibrand from 1972 to 1998. During debate on the efficiency audit provisions of the Audit Amendment Bill, Mr Willis argued that:

a far more satisfactory arrangement would seem to us to be for the Auditor-General, in conducting his efficiency audits, to monitor the extent to which departments themselves are evaluating the effectiveness of their programs, thus requiring the departments to undertake their own program effectiveness reviews.

**Figure 5.3: The extent and limits of the Auditor-General's mandate**



The RCAGA tabled its report in June 1976, not to the Whitlam Government that established it but to the Fraser Government that had been voted into power six months earlier. The Fraser Government was more interested in curbing government expenditure (see, for example, Australia, House, Parliamentary Debates, 1978, p. 2313) than in remodelling the principles and practices of public administration. Thus it came about that the RCAGA's recommendations on efficiency audit were accepted while most of the administrative reforms that made sense of it (Funnell, 1994a, p. 268 and 1998, p. 443; see also Pugh, 1987, p. 59), such as the recommendation that departmental heads should be and be seen to be responsible for the management of government programs within limits set by the executive (RCAGA, 1976, PP. 38-9), were set aside and ignored. This was despite the view of senior public officials like the Secretary of the Department of Defence that efficiency audit should not proceed in the absence of greater powers for departmental heads (Hoare, 1977, p. 7).

Having agreed in principle to the notion of efficiency audit, the executive established an ad-hoc committee known as the Working Party of Officials on Efficiency Audits (WPOEA) to provide advice on how a system of efficiency audits might be implemented. The WPOEA, which was comprised of representatives from the

Department of Prime Minister and Cabinet, the Public Service Board, the Treasury and the ANAO, endorsed the RCAGA's recommendations and agreed that the GAO's level 2 audits provided a useful referent for Australia's own efficiency audit function (WPOEA, 1977, p. 16). Notwithstanding, the WPOEA stressed the difficulties likely to be encountered in establishing boundaries between efficiency and effectiveness (WPOEA, 1977, pp. 13-4), warned that the external auditor would need to proceed cautiously so as not to prejudice his/her independence by political or subjective judgements (at p. 18), and recommended a gradual approach to the introduction of the new mandate (at p. 41; see also AGO, 1974b, p. 22). It also recognised that efficiency audits would require skills other than accounting and suggested that the Auditor-General be given flexibility in securing them (at pp. 39-40). Further, while it left the parliament to decide how efficiency audit reports should be handled, the WPOEA noted that both the PAC and the newly-constituted House Standing Committee on Expenditure would have a reasonable claim on the right to review them. Lastly, the WPOEA recommended that the *Audit Act 1901* be amended to provide a clear mandate for efficiency audit and listed the matters that would need attention to accommodate the extended mandate, including the Auditor-General's right of access to persons and records (at pp. 44-5).

When the Audit Amendment Bill was put before the parliament in October 1978, it received enthusiastic support, with the Chair of the PAC, Mr Connolly<sup>65</sup>, describing it as "the key legislation for the Parliament to be able to maintain its position as watchdog over the executive" and its efficiency audit provisions as the "innovative aspect" of that

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<sup>65</sup> David Connolly, M.P., of the Liberal Party, was the member for Bradfield from 1974 to 1996.

legislation (Australia, House, Parliamentary Debates, 1978, pp. 2299-300). Support for the efficiency audit provisions was also expressed by Mr Willis, who argued that:

First, there is the obvious need to ensure that the Government's resources are in fact being utilised efficiently. This is not something that comes within the scope of the conventional financial audit ... An efficiency audit remedies this deficiency ... surely justified as a means of ensuring against waste of taxpayers' money by the bureaucracy. ... The second reason ... has to do with ensuring the primacy of political responsibility for administrative efficiency by making departmental heads accountable to their Ministers, the Cabinet and the Parliament for the efficiency with which they maintain their departments (Australia, House, Parliamentary Debates, 1978, pp. 2296-7).

Despite general enthusiasm for the idea of efficiency audit, however, some parliamentarians saw dangers in it for auditor independence. For example, the Deputy Chair of the House Standing Committee on Expenditure, Mr Stewart<sup>66</sup>, argued that:

the members of the Expenditure Committee and all members of this Parliament should be greatly concerned that this Bill appears to create a closer association of the Auditor-General with the Executive rather than with this Parliament (Australia, House, Parliamentary Debates, 1978, p. 2305).

Another member of that committee, Mr Lusher<sup>67</sup>, echoed his concerns.

From the point of view of the Parliament, the Auditor-General occupies a very special position in the Public Service structure in that he reports directly to the Parliament and not to the Executive. He ought to be, and he ought to be seen to be, independent of the Executive. I do not want to see anything happen through the amendments proposed by this Bill – in particular in relation to the introduction of efficiency audits and the way in which they are handled by the Auditor-General – whereby the Auditor-General will lose any of that independence from the Public

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<sup>66</sup> Francis Stewart, M.P., of the Australian Labor Party, was the member for Lang from 1953 to 1977 and then Grayndler from 1977 to 1979.

<sup>67</sup> Stephen Lusher, M.P., of the National Country Party, was the member for Hume from 1974 to 1984.

Service as we traditionally know [it]. ... In the introduction of the new arrangements concerning efficiency audits we must make absolutely sure that the Auditor-General remains a servant of the Parliament as he is in Westminster and not become an agent or a servant of the Executive (Australia, House, Parliamentary Debates, 1978, pp. 2309-10).

Their concerns notwithstanding, there were high expectations of this new, albeit mysterious, function as a tool of parliamentary scrutiny, evidence of which can be found in the following remarks by Mr Johnson<sup>68</sup>.

As I look through the legislation in a cursory way I notice that in proposed Division 2 of Part VI there is provision for efficiency audits. I do not really understand the definition of an efficiency audit. The name implies something of merit, the merits conceded by competent members from both sides of the Parliament. I have no doubt that the division is very important (Australia, House, Parliamentary Debates, 1978, p. 2311).

Mr Johnson also argued that the legislation would leave the Auditor-General “unfettered or freed and given the characteristics of flexibility, to move in, to probe, in his discerning way, and to cause, by that very licence, a greater degree of competence and efficiency”. Notwithstanding Mr Johnson’s interpretation of the legislation, however, Funnell (1998, p. 443) argues that the executive had no intention of allowing the Auditor-General to roam unfettered and free to intimidate and attack it and that the proposed amendments were not designed to introduce fundamental change in the constitutional position of state audit. It was nonetheless a milestone for the Auditor-General and his office when the *Audit Amendment Act 1979* received royal assent on 7 March 1979. The amended legislation gave the Auditor-General discretion over what audits to conduct (s. 48C) as well as what to report to the parliament (s. 48F(2)) and how and when he reported it (s. 48F(8)). Notwithstanding the discretion that was

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<sup>68</sup> Les Johnson, M.P., of the Australian Labor Party, was the Member for Hughes from 1955 to 1966 and 1969 to 1983.

granted to him, the Auditor-General was required to report in some fashion on the audits he conducted (s. 48F(1)), although it was not clear whether this applied to all audits or only to those that progressed to completion. This became a point of contention during the latter stages of Auditor-General Brigden's term of office, when he refused to report to the parliament on an abandoned audit of Australia Post. The contribution of the Australia Post audit to the institutionalisation of ANAO performance audit and the achievement of its credibility is explored in a later section of this chapter.

### **5.3.2.2 *Designing the audit approach***

The encoding of a script for ANAO performance audit, or at least one aspect of it, reached its conclusion when royal assent was given to the *Audit Amendment Act 1979* in March 1979. However, its encoding took place concurrently at two levels: in the public arena, where the Auditor-General's statutory rights and obligations were debated and proclaimed; and at an organisational level within the ANAO itself, where the internal strategies, structures and mechanisms of performance audit were developed. The link between these two levels of encoding is, of course, the visionary Don Steele Craik, who played such a pivotal role in extending the reach and impact of state audit. Craik's concern for improving public sector efficiency and effectiveness, which predated his appointment as Auditor-General (Wanna *et al*, 2001, p. 110), coincided with an emerging interest, worldwide, in extended scope audits (Normanton, 1966; see also Glynn, 1985a and b), even in the private sector (Bird, 1970; Beck, 1973), a movement of which Craik was well aware (AGO 1974b, pp. 15-24; Kimball, 1976, pp. 36-51; Australia, JCPA, 1977, p. 34-41; and Hamburger, 1989, p. 5). His interest in value for money in government expenditure is exemplified by the project and operational audits to which he introduced the ANAO during the first half of the 1970s (see Section 5.2), albeit with mixed success (Kimball, 1976, p. 32-3). These small-scale, extended-scope

audits provided a foretaste of the skills and technologies that would be required for efficiency audit, which Craik had not at first envisaged as a state audit responsibility (AGO 1974b, p. 6; see also Wanna *et al*, 2001, p. 206) but which he gladly accepted when it was offered to him (RCAGA, 1976, Appendix Volume Four, p. 172).

The government's acceptance of the RCAGA's efficiency audit recommendations left Craik with a dual problem: how to incorporate efficiency audit into the ANAO and how to staff it. Informed by the GAO's experience in implementing comprehensive audit, Craik was interested in the idea of a dedicated efficiency audit division staffed by a multi-disciplinary team (Funnell, 1994a, p. 342). Nevertheless, he remained open to the possibility that his accounting-oriented financial audit staff might be trained up for the task<sup>69</sup>. Yet, early in 1978, well before the Audit Amendment Bill was debated in parliament<sup>70</sup>, Craik established a separate audit division, the EAD, to manage his efficiency audit mandate, located it in premises separate to the financial audit divisions (Australia, House Standing Committee on Expenditure, 1985a, p. 149; see also Funnell, 1994a, p. 353; and Wanna *et al*, 2001, p. 208), and staffed it with a multi-disciplinary team recruited from within and outside the office. Craik's objectives in establishing a separate division were threefold (Lidbetter, 1986, p. 4; see also Adams, 1986): to develop an efficiency audit methodology; to train staff to evaluate and measure agency performance against appropriate standards of efficiency; and to test methodologies in the field through a program of efficiency audits. In other words, establishing the EAD

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<sup>69</sup> In an address to a conference of public accounts committees in June 1977, Craik said:

I believe, with proper professional development and guidance, they can cope with this task and I am encouraged in this by the experience of New York State [where all the staff at that time were accountants] (Australia, JCPA, 1977, p. 39; see also p. 36).

<sup>70</sup> During Senate debate on one of the 1978 Appropriation Bills, questions were raised about the establishment of the EAD in advance of an official mandate for efficiency audit. In particular, the Senate questioned the extent to which departments or government authorities ought to anticipate parliamentary approval of legislation (Australia, Senate, Parliamentary Debates, 1978, pp. 2030-1).



was about scripting a technical design for performance audit. Unfortunately, as a separate division, physically and philosophically<sup>71</sup> remote from the financial audit divisions (Funnell, 1994a, p. 353; see also Australia, House Standing Committee on Expenditure, 1985a, p. 130), the EAD soon earned a reputation for elitism among the ANAO's traditional auditors, who referred to it disparagingly as the Golden Division "because it was treated a bit specially, at least in the view of some people" (Interview with Consultant #4, 5 May 2004; see also Wanna *et al*, 2001, p. 208).

Among the external appointments to the EAD was its head, John Jones, an engineer recruited from the Department of Prime Minister and Cabinet (Hamburger 1989, p. 10; Funnell, 1994a, p. 344; and Wanna *et al*, 2001, p. 208) where he had been engaged in assessing program proposals. Jones saw three parts to his role: to develop a methodology for efficiency audit, to make sure good projects were selected, and to ensure the quality of the final product (Australia, House Standing Committee on Expenditure, 1985a, p. 36). According to Funnell (1994a, p. 349; see also Lidbetter, 1986, p. 4), Jones faced a daunting task, compounded by problems such as inexperienced staff, apprehensive auditees, high community expectations, poorly-articulated policy goals and objectives, and a lack of established audit tools and

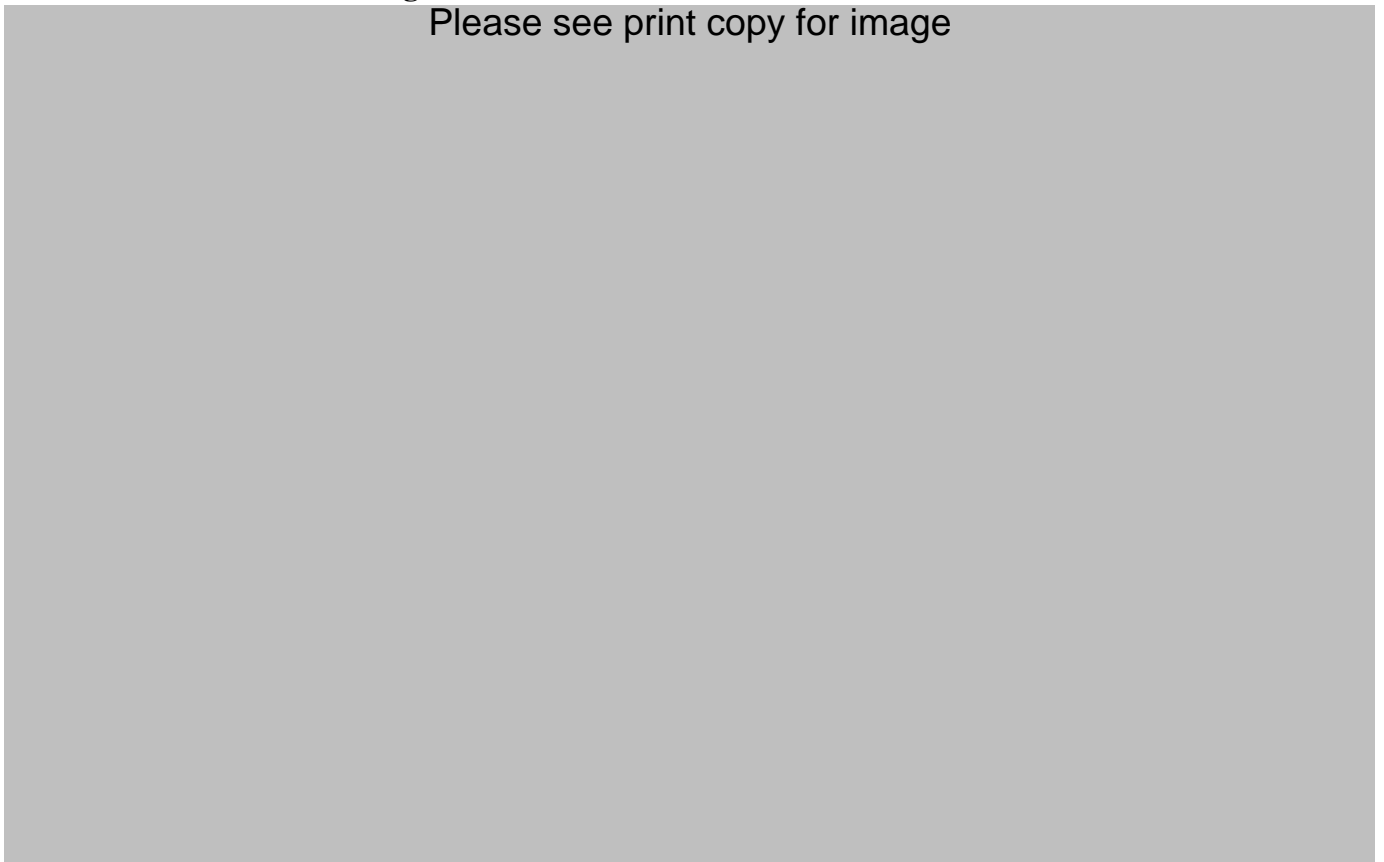
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<sup>71</sup> When I collected the empirical data for this study, the interrelationships between the ANAO's financial and performance audit staff was of limited interest. Nevertheless, the following remarks by one of the ANAO's executive staff suggest that, even today (2007), performance auditors seek to distinguish themselves from their financial audit counterparts. These comments are consistent with Radcliffe's (1999) findings, noted in Chapter 1.

It's much easier to give someone an assurance about the fact that things are right than it is to say, no, you're doing it wrong and you need to improve. I think that's probably the big difference. The other difference that upsets a modern audit practice at times is - because the financial statement auditors' assurance work, it's relatively light auditing across the top - that when we come in and do a performance audit in depth of an area, then the true differences begin to show. You know, the fact that we've got more time to go deeper and wider in a performance audit and understand the context better can cause quite a few tensions in [the ANAO] (Interview with ANAO #11, 18 March 2004).

techniques. Moreover, his implementation of the function proceeded in an atmosphere of internal distrust and disunity, with the financial audit divisions suspicious of his relaxed management style (Funnell, 1994a, p. 354) and troubled by his apparent interest in the evaluation end of the review and audit continuum (Hamburger, 1989, pp. 10-1, Guthrie and Parker, 1999, p. 311 and, especially, Funnell, 1994a, pp. 342-8), which is depicted in Figure 5.4.

**Figure 5.4: The review and audit continuum**  
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(AGO, 1980b, p. 71, Figure 13.1)

The financial auditors were also discomfited by the cooperative relationship that Craik and Jones sought to establish between the EAD and the central and line agencies (Funnell, 1994a, pp. 315-6; see also Australia, JCPA, 1977, pp. 40-1; and Wanna *et al*, 2001, p. 211). Craik and Jones saw efficiency audit as a means of assisting public managers to improve their performance and regarded consultation and diplomacy (see,

for example, Pugh, 1987, p. 57) as essential for achieving results. Unfortunately, for the financial auditors, a consultative approach was akin to management consultancy and a threat, therefore, to auditor independence.

Another factor that was to prove problematic for the EAD and its relationship with the financial audit divisions was Jones' decision to embark immediately on large-scale audit projects rather than to proceed cautiously with the implementation of the mandate. In evidence presented to the House Standing Committee on Expenditure (Australia, 1985a, p. 34), Jones explained that his decision to attack on a broad front and to let people learn by doing was intended to get as many "runs on the board" as possible. In a later interview with Funnell (1994a, p. 344) in 1990, Jones admitted that he felt under pressure from external constituents to perform and believed that the slow and steady approach advocated by the RCAGA, the WPOEA and the parliament was not an option. To implement his strategy, Jones divided the EAD into two branches: a methodology branch, responsible for developing the tools and techniques of efficiency audit, monitoring the progress of audits and rectifying deficiencies as they occurred; and a coordination branch, responsible for training staff, conducting audits and liaising, as necessary, with other government agencies (see Funnell, 1994a, p. 348). The EAD's approach to audit thus became a process of trial and error (Adams, 1986, p. 192), with the encoding of a technical script for efficiency audit coinciding with its enactment.

The next sections demonstrate that ANAO performance audit was to suffer numerous challenges over the ensuing years in its struggle to achieve institutional credibility. Most of its problems can be traced, however, to decisions taken during this initial, encoding stage in its institutionalisation, such as the introduction of performance audit

ahead of the public sector reforms that made sense of it, the ambiguous phrasing of the mandate, and Jones' decision to embark immediately on large-scale audit projects.

### **5.3.3 Enacting the script**

In Barley and Tolbert's model of institutionalisation (1997, p. 102), enactment occurs when actors enact the scripts that encode institutional principles. The actors who enacted the script for ANAO performance audit were Jones and the staff of the EAD, whose efforts were at first encouraged and then stifled by the competing visions of Auditors-General Craik and Brigden. During its short, troublesome history (1978-1984), the EAD commenced a total of sixteen audits under the new efficiency audit provisions (see Appendix H)<sup>72</sup>, of which fifteen were completed and reported to the parliament and another discontinued<sup>73</sup>. Further, all but one<sup>74</sup> were reviewed by either the PAC or the House Standing Committee on Expenditure, in accordance with a decision announced by the government of the day when efficiency audit was first added to the state audit mandate (Lidbetter, 1986, pp. 3-4; see also Funnell, 1994a, pp. 357-61). The main purpose of this section is to consider the EAD's achievements as revealed in the feedback from these two parliamentary committees. Before examining this feedback, however, it is useful to look briefly at the Craik/Jones model of efficiency audit, as described in the first two volumes<sup>75</sup> of Craik's General Audit

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<sup>72</sup> The EAD conducted another four audits under Section 54 of the Act (Australia, House of Representatives Standing Committee on Expenditure, 1985a, p. 25; see also Funnell, 1994a, p. 450). These were completed prior to the date on which the efficiency audit provisions came into effect.

<sup>73</sup> This was an audit of Australia Post's counter services operations. The outcome of the PAC's inquiry into this audit is considered later in this chapter.

<sup>74</sup> The only EAD efficiency audit not reviewed by a parliamentary committee was an audit of the Bureau of Meteorology's observation program. This was completed in October 1984, some months after the EAD's official demise.

<sup>75</sup> According to Brigden (Auditor-General, 1981, p. 188) and the Independent Auditor (Cameron, 1982, p. 1), the first three volumes of a five volume manual were issued in

Manual (AGO, 1980a and 1980b). The manual's value to the present study is threefold: first, it demonstrates the thinking that underpinned the encoding of ANAO performance audit under Craik and Jones, so providing a link to the previous section; second, it adds context to the parliamentary feedback considered in the following section, and third, it provides a point of reference for Brigden's revision of the script, which is explored later in this chapter.

#### **5.3.3.1 *Craik's General Audit Manual***

Craik's General Audit Manual (AGO, 1980a and 1980b) contains two sections that focus exclusively on efficiency audit. The first section of interest, contained in Volume 1 (AGO 1980a, Section 3, pp. 37-43) deals mainly with its history, including Craik's motivations for seeking an extension of the audit mandate, his submission to the RCAGA and the outcome of that inquiry, and the WPOEA's findings on how efficiency audit should best be implemented, all of which were considered earlier in this chapter. The section also discusses the relationships between efficiency audit and other public mechanisms of scrutiny and management improvement, both internal and external to the ANAO. The first relationship noted is between efficiency and financial audit, with the manual acknowledging the potential for overlap between these two audit functions and stressing the need for inter-divisional communication for sharing information about areas of mutual interest. It is regrettable that the poor relations between the efficiency and financial audit divisions meant that cooperative communication was never likely be a feature of their relationship. The second relationship is between efficiency audit and program and policy review. Foreshadowing some of the management reforms introduced into the APS later in the decade, the manual suggests that documents

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1980. However, to my knowledge, only the first two volumes remain in the public domain.

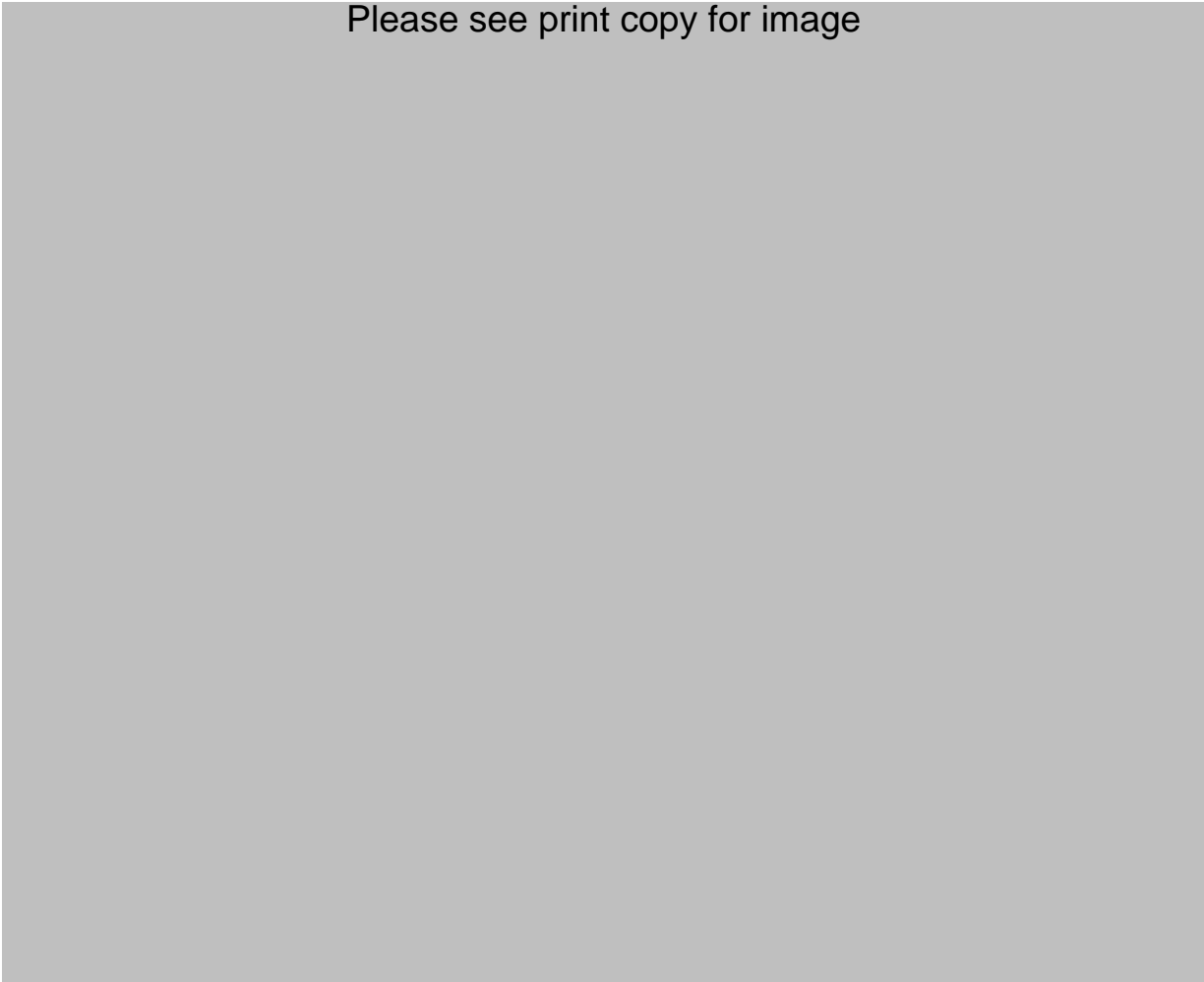
describing government programs should indicate the authorised purposes, activities and responsibilities of the program, together with any relevant restrictions and limitations, and that “[a]n important part of the efficiency auditing process is identification of any shortcomings in this respect” (AGO, 1980a, p. 42). Further, while acknowledging that program and policy reviews are the province of the Department of Prime Minister and Cabinet and individual government agencies, the manual claims a role for the Auditor-General in providing information on activities that, in his opinion, should be subjected to review.

The third, and final, relationship noted in the General Audit Manual is between efficiency audit and other mechanisms of scrutiny and control. These include the review activities undertaken individually by the Public Service Board, the Department of Finance and the internal audit and management advisory units within agencies. The Manual (AGO, 1980a, p. 43) suggests, for example, that internal audit and management advisory units can be “important touchstones in the development and conduct of the efficiency audit program”. The manual accepts that agency-based review activities are of limited value as a mechanism of independent scrutiny but outlines the synergies and savings to be gained by coordinating the efficiency audit program with other agency-based reviews. Further, it argues that efficiency audit needs to strike a balance between, on the one hand, a concern for organisational objectives and their relationship with government policy objectives and, on the other, a detachment from issues that could be associated too closely with program and policy review. According to the manual, while it is essential to maintain an independent stance, too great a detachment might impair the capacity of efficiency audit to achieve its “ultimate objective” which, in Craik’s view, was public management improvement. This is evident in the following statement.

While the Auditor-General's responsibility is to report to Parliament, auditors should never lose sight of their ultimate objective of enhancing the quality and efficiency of public administration (AGO, 1980a, p. 43).

The second section of Craik's General Audit Manual of interest to this study is Volume 2 Section 13 (AGO, 1980b, pp. 71-82), which begins with the place of efficiency audit on the review and audit continuum and a summary of its legal basis. The main thrust of Section 13, however, is the ANAO's efficiency audit approach, which is summarised in Table 5.1. Several aspects of this approach warrant special mention. The first is its emphasis on flexible forward planning, taking into account the entire field of operations in which the Auditor-General has efficiency audit responsibility and recognising the need for balance between the ANAO's efficiency and financial audit programs. The criteria used for identifying audit topics are also listed, including resource utilisation, public interest and the findings of recent audits. The intention was for audit topics to be identified and prioritised by means of a deliberative planning process rather than serendipitously, based solely on deficiencies noted during financial audit tasks. The manual's approach to topic selection provides an interesting contrast to later claims that the EAD's audits were "picked at random ... and in some instances set out to be 'gotchers'" (Australia, House Standing Committee on Expenditure, 1985a, p. 32).

**Table 5.1: The efficiency audit process**  
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(AGO, 1980b, p. 76, Figure 13.2)

The second interesting aspect of the manual's approach to efficiency audit is its focus on management control systems and their adequacy in achieving program purposes with efficiency and economy. The achievement of objectives, the appropriateness of organisational structures and the administrative constraints under which public sector organisations operate were all factors to be considered in evaluating program performance. In this regard, it is notable that one of the criticisms of the EAD's audits, considered later in this chapter, is that the Auditor-General went beyond his mandate in considering the effectiveness of management systems and that his recommendations failed to take the circumstances of the auditee into account. The third aspect of interest is the EAD's normative approach to audit. This was appreciated by the parliamentary



committees that reviewed the first efficiency audits but not by Brigden, who was critical of the EAD's research-oriented approach.

The fourth, and final, aspect of Section 13 that is of interest to this chapter deals with its recording and reporting practices, including a requirement to record evidence in working papers and to subject audit findings and recommendations to a rigorous process of internal review. These principles were intended to ensure “the timely production of accurate, comprehensive and relevant efficiency audit reports” (AGO, 1980b, p. 78), a goal that the EAD was unable subsequently to achieve, in part because of the size and complexity of its audits but also because of staffing issues and Brigden's lack of support. The manual also includes a requirement to collect documentary evidence about the auditee's position on issues by, for example, obtaining its comments on discussion papers and early drafts of report chapters. However, this “succession of documents exchanged between auditor and auditee” during the editorial stage was one of the EAD practices to which Brigden particularly objected (Australia, House Standing Committee on Expenditure, 1985a, p. 134).

#### ***5.3.3.2 The parliament's feedback on EAD audits***

It was noted earlier in this chapter that the EAD commenced sixteen audits under the new efficiency audit provisions. For a number of reasons, including staff shortages, tensions between key players and learning curve issues, most of these audits were untimely affairs, in most cases taking two or more years to complete. Lack of timeliness, however, was only one of many features of the EAD's audits that disappointed the parliamentary committees that reviewed them. This section is about the committees' responses, both positive and negative, to the EAD's audits.

With stakeholders still coming to grips with the efficiency audit concept, the PAC and the House Standing Committee on Expenditure considered both the content and quality of the reports, sometimes complimenting them on their methodology (for example, Australia, House Standing Committee on Expenditure, 1981, p. 1; and Australia, JCPA 1982, p. 43) and contribution to public sector efficiency (for example, Australia, House Standing Committee on Expenditure, 1982, p. 6; 1985c, p. 4; and 1986b, p. 8) but also finding fault with their scope and execution. In particular, they complained about the quality of the evidence and analysis that supported the reports (for example, Australia, House Standing Committee on Expenditure, 1981, p. 5; 1982, p. 10; and 1984, p. 9) and their failure to provide useful recommendations (Australia, House Standing Committee on Expenditure, 1981, p. 4 and 1986a, p. 7). The committees also questioned whether the Auditor-General had exceeded his authority in considering administrative effectiveness and making recommendations for change (for example, Australia, House Standing Committee on Expenditure, 1982, p. 7 and Australia, JCPA, 1982, p. 44), although his failure to do so was also a cause for complaint (for example, Australia, House Standing Committee on Expenditure, 1985c, p. 3). There was criticism, too, of the style and presentation of the reports (Australia, House Standing Committee on Expenditure, 1981, p. 1; 1984, p. 4; 1985c, p. 6; and 1986a, p. 9) and, of course, their lack of timeliness (Australia, House Standing Committee on Expenditure, 1986c, p. 9 and 1986c, p. 8; and Australia, JCPA, 1986a, p. 50). The committees' complaints reveal the major scripting and staging issues that faced ANAO performance audit as it moved between the first (enactment) and third (revision) stages of its institutionalisation.

There are six parliamentary committee inquiries that are particularly helpful in exposing the achievements and challenges of this enactment stage in the institutionalisation of

ANAO performance audit, all of which were the responsibility of the EAD (see Table 5.2). The first audit is that of the Australian Property Function, an activity managed by the (then) Department of Administrative Services.

**Table 5.2: The parliamentary inquiries explored in this section**

<b>Parliamentary inquiry</b>	<b>Report date</b>	<b>Committee</b>
Department of Administrative Services – Australian Property Function	June 1991	Expenditure Committee
Commonwealth Administration of Nursing Home Programs	February 1982	Expenditure Committee
Administration of Australia’s Bilateral Overseas Aid Program	May 1984	PAC
Management of The Main Battle Tank – Who Was Outgunned?	June 1984	Expenditure Committee
Public service efficiency review mechanisms	Unreported – hearings conducted in July-September 1985	Expenditure Committee
Australia Post – an Audit Discontinued	August 1986	PAC

The Australian Property Function audit was unusual in a number of respects and not only because it was the first efficiency audit to be transmitted to the parliament under the amended audit legislation. First, it was conducted under terms and conditions set by the auditee, the Minister and the Public Service Board, so that it lacked the design independence normally associated with state audit. Second, its initial intention was to assist the Department to rectify known faults and, as such, had more in common with management consultancy than external audit. Third, commenced in advance of the 1979 legislation, the audit was intended as a “dry run” (Australia, House Standing Committee on Expenditure, 1981, p. 5) to test the technologies of efficiency audit in the field. In this respect, it represents an overlap between the encoding and enactment of ANAO performance audit. Notwithstanding, the audit was reported to the parliament

pursuant to Section 48F(8) of the *Audit Act 1901*, which deals with the contents of the report and the reporting process, and reviewed by the House Standing Committee on Expenditure as if it had been undertaken from the beginning in accordance with that legislation. In other words, the audit may have begun as a dress rehearsal but it ended up as a live performance. The EAD's approach to the property function audit was to assess the function's administrative processes against a self-developed normative model (Australia, House Standing Committee on Expenditure, 1981, p. 2; see also Lidbetter, 1986, p. 4) and to prepare case studies "to provide a factual basis for the development of improved management" (Auditor-General, 1980, p. 2). The twenty months or so taken to complete the audit included about five months of fieldwork plus an extended period of report-writing and negotiation with the Department over audit findings (Auditor-General, 1980, p. 2; see also Australia, House Standing Committee on Expenditure, 1981, Exhibits, pp. 51-2). Following its transmission to the parliament in April 1980, the audit report was passed to the House Standing Committee on Expenditure for comment. Delayed by the 1980 elections, however, the Committee was unable to report its findings until June of the following year, by which time the EAD's second audit had already been completed and tabled.

The Committee's report on the Australian Property Function audit was, on balance, very negative. It complained, for example, about the lack of an integrated framework to assist it to come "to grips" with the audit (Australia, House Standing Committee on Expenditure, 1981, p. 2). It criticised the level at which the audit findings were pitched, the "dearth of specific recommendations for action" (1981, p. 6) and the report's failure to quantify benefits. It questioned the validity and relevance of some of the audit's case studies. It objected to its own "undeveloped relationship with the Auditor-General's Office" (1981, p. 14). Yet there were positive aspects to the Committee's report as

well. For instance, it commended the Auditor-General on his systematic approach to the audit, agreed with the main thrust of his report, noted that the Department itself agreed with the audit view in most respects and that a point of major disagreement had been resolved in the ANAO's favour, and acknowledged that the audit had contributed to the settling of a dispute between the Department and the Public Service Board. Further, the Committee supported the ANAO in criticising the Department for its lack of vigour in remedying the deficiencies it had identified. According to the Chair of the Committee, Mr Lusher (Australia, House, Parliamentary Debates, 1981, p. 3338), the ANAO had put runs on the board but had lost some wickets in the process.

The Committee's response to Craik and his first efficiency audit, which was considerably more aggressive than auditors-general were accustomed to receive from the PAC, needs to be understood in its political context. Established in 1976 by the Fraser Government to scrutinise the economy, efficiency and effectiveness of government programs, the Committee perceived its functions as threefold (Australia, House Standing Committee on Expenditure, 1977): first, to examine and evaluate the processes used in the planning, management and control of expenditure; second, to evaluate programs for alternative, more efficient ways of attaining policy objectives; and third, to examine programs to determine whether they were administered with economy and efficiency. The Committee was keen to establish a reputation for fiscal restraint and to distinguish itself from the PAC, with its allegedly cosy relationship with state audit (Funnell, 1998, p. 446; see also 1994a pp. 358-61 and 363-4). Thus it had few qualms about confronting both auditor and auditee in pursuit of its objectives. Indeed, its willingness to challenge the Auditor-General was evident from its first public meeting with him in August 1980. Noting the lack of recommendations in his

report, the Chair of the Committee's Sub-committee on Efficiency Audit complained that:

[t]he question we have to ask ourselves is whether we undertake this work [of determining improvements] – and why should we – and whether this approach of Audit has the effect not only of making more difficult the job of assessing the contribution that such reports make to economical and efficient administration, but also whether this approach lessens the contribution made by Audit to making departments and organisations accountable to the Parliament for such administration (Australia, House Standing Committee on Expenditure, 1980, p. 8).

Evidence of the Committee's more challenging relationship with state audit can also be found in the critical language used throughout its report (Australia, House Standing Committee on Expenditure, 1981). For example, it refers to the ANAO's "ambivalence" (at p. 4) about making recommendations, its "unnecessarily defensive" attitude to the difficulties of quantifying benefits (at p. 6), and its "cursory" treatment of major issues (at p. 9). Funnell (1994a, p. 360) observes that Craik found it difficult to work with the Committee because of its aggressive approach, was repulsed by the Committee's expectation that he should appear before it in an adversarial role, and felt that the Committee was out to "get" him and his office. However, this chapter demonstrates that the Committee's aggression was not reserved exclusively for Craik, nor was it the only parliamentary committee to criticise the Auditor-General's efficiency audit reports.

The nursing home program audit, which is the subject of the second parliamentary committee inquiry considered in this section, was tabled in parliament in February 1981 and reviewed by the House Standing Committee on Expenditure a year later, in February 1982. The audit objectives were twofold: first, to assess the extent to which the Commonwealth's administration of nursing home programs was conducted in

accordance with relevant government policies, interacted with related programs for the aged and infirm, and was conducted in an efficient, effective and consistent manner; and second, to provide suggestions for administrative improvement. The Committee found that the nursing home audit represented an improvement in quality over the previous audit, this despite some “inaccurate figuring” which it hoped would be a “one-off incident” (Australia, House, Parliamentary Debates, 1982, p. 618). Nevertheless, the Committee suspected that aspects of the report went beyond an examination of administrative efficiency. Rather than censure the Auditor-General for this apparent breach of his mandate, the Committee decided to contemplate the advantages and disadvantages of extending the mandate towards the effectiveness end of the review and audit continuum. Yet, in the end, it chose not to express a view on the matter but instead urged the executive and the parliament to clarify the position.

The sensitivity and confusion surrounding the issue of effectiveness, which first emerged during the encoding of ANAO performance audit, surfaced again during the third parliamentary review to be considered here, namely the PAC’s review of the bilateral overseas aid program audit (Australia, JCPA, 1982). Consistent with its “well developed relationship with the Auditor-General” (1982, p. 47; see also Funnell, 1994a, p. 368), the PAC was more supportive of the EAD’s efforts than the House Standing Committee on Expenditure had been during the first two efficiency audit reviews. For example, the PAC commended the audit for “the comprehensiveness of its coverage and the accessibility of its observations and recommendations” (Australia, JCPA, 1982, p. 6) and declared them a blueprint for efficient and effective program administration. Nonetheless, when it found references in the report to effectiveness issues, the PAC took exception to the idea that the Auditor-General could consider even administrative effectiveness within his efficiency audit mandate. In the PAC’s opinion, “attempts to

define the scope of efficiency auditing by defining the common meaning of the words efficiency and effectiveness are unlikely to produce a result useful to administrators, auditors or the Parliament” (1982, p. 44). Notwithstanding this perceived infringement of the audit mandate, however, the Committee took the agency’s (and its own) acceptance of most of the audit recommendations as an indication of the value of the audit. Further, it dismissed the various complaints raised by agency witnesses (1982, 46-7) as the result of their lack of familiarity with the notion of efficiency audit, a problem that the PAC professed to share. Accordingly, it recommended that a package of training materials on efficiency audit be prepared for use by agency staff.

The parliamentary committee reports discussed thus far expressed both positive and negative views about their respective audits but this was not the case for the Main Battle Tank audit, for which the House Standing Committee on Expenditure (Australia, 1984) could find nothing to recommend it. Only nine pages long, the audit was condemned for its brevity, for leaving crucial questions unanswered, and for other deficiencies that made it difficult for the Committee to assess the efficiency of agency management (Australia, House, Parliamentary Debates, 1984, p. 2785). While clearly disgusted with the audit, the Committee was also perturbed by Brigden’s intention, announced during the inquiry but evident as early as 1982 (see Funnell, 1994a, pp. 397-402; see also Hamburger, 1989, p. 12), to disband the EAD and absorb its functions back into the financial audit divisions. Despite the disappointments of the Main Battle Tank and earlier audits, the Committee remained committed to the idea of a role for state audit in assessing the efficiency of public administration. It was concerned, therefore, that Brigden’s actions were in contravention of the spirit of the proposals to which the parliament had originally agreed (Australia, House Standing Committee on Expenditure, 1985a, p. 2).



Its anxiety about the future of efficiency audit led the House Standing Committee on Expenditure to establish an inquiry into mechanisms for efficiency review within the public service, the hearings for which were held in July and September 1985. While the inquiry was never completed (Australia, JCPA, 1988, p. 714), the submissions to it and its minutes of evidence are of considerable value in exposing the factors that threatened the survival of ANAO performance audit during its formative years, including agency resistance to the function (Funnell, 1998, p. 447) as well as Brigden's antipathy towards the EAD and the narrowness of his vision (Hamburger, 1989, pp. 11-3; Funnell, 1994a, pp. 380-406; and Funnell, 1998, pp. 448-52). The witnesses to the inquiry included, among others: Brigden, who retired from office prior to the Committee's hearings; his successor, Monaghan, whose views are considered later in this chapter; Jones, who appeared before the Committee as a private citizen; and representatives of various government agencies that had been subjected to efficiency audit processes. The agencies were generally critical of the efficiency audits completed to date, regarding them as over-ambitious and not cost-beneficial (Australia, House Standing Committee on Expenditure, 1985b, p. 138) as well as resource consuming, uneven in coverage and not directed systematically to areas of greatest need (1985b, p. 320). Further, they claimed that efficiency auditors confused efficiency and effectiveness issues, challenged program objectives and made recommendations on assumed program objectives (1985b, p. 268). They argued that efficiency audits could be enhanced by improving the processes of scope definition and consulting more with subject areas (1985b, p. 247), using audit teams with "real understanding of the issues which extend beyond the scope of efficiency per se" (1985b, p. 268), and reconsidering the appropriateness of locating efficiency audit with the Auditor-General (1985b, p. 392). Arguably it appears that the agencies perceived the Auditor-General's efficiency audits

variously as lacking in objectivity and independence, poorly performed and of limited value. In other words, they did not regard them as credible.

Not surprisingly, Jones, the former head of the now defunct EAD, disagreed with the agencies' (and Brigden's) assessment of his division's achievements. In his evidence before the House Standing Committee on Expenditure, Jones spoke instead of the EAD's successes and rationalised his decisions about the scope and scale of its audits. He explained that the approach to efficiency audit that he and Craik had developed was based on an understanding that the parliament wanted efficiency audits that demonstrably went beyond Section 54 project audits. Jones told the Committee that it was for this reason that he and Craik had "pushed as far up the audit continuum as we could go without trespassing on policy" (Australia, House Standing Committee on Expenditure, 1985a, p. 13). With the audit legislation unclear as to the meaning of efficiency audit, Jones decided that efficiency could not be fully comprehended without also considering questions of effectiveness "but ... at the administrative level rather than a policy level" (1985a, p. 8). He recognised that the boundary between policy review and efficiency audit could be blurred but felt that the main requirement was to ensure that observations were restricted to the effect of policy on administration, without expressing an opinion on the policy itself. In Jones' opinion, the EAD had handled this requirement "quite well, notwithstanding the fact that some auditees accused us of trespassing into the policy area" (1985a, p. 11). As for the lack of timeliness of the EAD's audits, Jones argued (1985a, p. 17) that in the early days this was caused by learning curve problems and in later years by factors beyond the EAD's control, including editorial delays within the ANAO, problems in obtaining responses from auditees under Section 48F(3), and the redeployment of EAD staff to other areas of the office. These problems notwithstanding, Jones argued that a number of

successful audits had been completed, the methodology was tried and tested, and the efficiency audit provisions should be left as they were (1985a, p. 28). Brigden, however, was unimpressed with Craik and Jones' "all-singing, all-dancing performance-type" audits (1985a, p. 133), which he felt had proved their worth as "a horrible example of what you do not do" (1985a, p. 147). His objections and responses to the EAD and its audits are considered later in this chapter.

The fifth and final committee inquiry of interest to the enactment of ANAO performance audit is the PAC's examination of the discontinued Australia Post audit (Australia, JCPA, 1986a). The Committee's decision to review this audit was prompted initially by media reports alleging suppression of an Auditor-General's report (1986, p. 2) and the questions in the parliament that these inevitably aroused (see Australia, Senate, Parliamentary Debates, 1985, p. 2768). The PAC examined, among other things, how the draft audit report that led to these allegations came to be leaked to the media, whether auditors-general had the statutory discretion to abandon efficiency audits, and whether or not discontinued audits should be reported to the parliament. These issues are of marginal interest only, however, as they deal with the Auditor-General's general relationship with the parliament, which is beyond the scope of this study. Instead, the Australia Post inquiry is significant for ANAO performance audit, firstly, because it highlights the importance of timeliness for performance audit credibility, an issue that surfaces again during the empirical part of this study (see Chapter 6) and, secondly, because it provides further evidence of the dysfunctional environment of ANAO performance audit during its early years caused by personality conflicts, poor management and control processes, staffing issues and a breakdown in communications among key stakeholders, including the Auditor-General, his staff and the auditee. The inordinate delay between the commencement and abandonment of this

audit and the alleged incompetence of the EAD's handling of it are attributable to all of these factors, which together presented major obstacles for efficiency/performance audit during this enactment stage of its institutionalisation, as it struggled to achieve institutional credibility.

In summary, the enactment stage in the institutionalisation of ANAO performance audit was fraught with difficulty. Brigden's antipathy to Jones and the EAD, Jones' decision to allow the EAD to "learn by doing" (Australia, House Standing Committee on Expenditure, 1985a, p. 34), the agencies' lack of understanding of and resistance to the processes of efficiency audit, problems in recruiting and retaining staff with appropriate skills and experience, ambiguities associated with the meaning of efficiency audit, and the absence of clearly-specified program goals and objectives for the framing of audit criteria, all combined to make the early years of ANAO performance audit very challenging indeed. It is all the more remarkable that the EAD's audits did achieve a measure of success, with even Brigden admitting that not many of its audits had actually gone "off the rails" (1985a, pp. 132-3). Furthermore, the parliament remained committed to the idea of efficiency audit throughout this enactment stage, despite the occasional glitch in its execution. Thus, while the EAD did not survive beyond its first half decade or so in operation, efficiency audit did, albeit with significant revisions to its script as well as a new title, *performance audit*. The next section demonstrates however, that although script revisions may have been intended to improve the function and, thus, enhance its credibility, their ability to do so was constrained by a variety of factors, including resourcing constraints as well as the personal styles and beliefs of individual auditors-general.

### **5.3.4 Revising and replicating the script**

The third stage of Barley and Tolbert's model of institutionalisation, replication and revision (Barley and Tolbert, 1997, p. 102), deals with the degree to which behaviours replicate or revise the scripts that informed the actions taken during enactment. For ANAO performance audit, replication is represented by the audits conducted under the efficiency audit provisions during the Brigden, Monaghan and Taylor years. With the exception of the EAD audits, the efficiency audit completed under Brigden and Monaghan differed markedly in their design from the scripts developed by Craik and Jones. Yet, under Taylor, the design once again resembled aspects of the original Craik/Jones model. This third stage in the institutionalisation of ANAO performance audit is characterised, therefore, more by revision than replication, as Brigden, Monaghan and Taylor responded in turn to the challenges of enactment, including the hostile responses of institutional constituents. Hamburger (1989), who studied the development of performance audit under Craik, Brigden and Monaghan, argues that Australia's auditors-general have adopted strikingly different interpretations of the concept and the analysis presented in this section lends weight to Hamburger's argument. There were, however, other factors besides the interpretations of individual auditors-general that influenced the development of ANAO performance audit during this third stage in its institutionalisation, not least of which were the reform movements noted in Chapter 4: the NPM reforms because they provided the long-awaited rationale for ANAO performance audit and the audit reform movement because it clarified and confirmed the Auditor-General's rights and responsibilities in relation to its conduct.

#### ***5.3.4.1 The Brigden years (1981-5)***

Brigden introduced three major revisions to the Craik/Jones model of efficiency audit. Firstly, he brought an end to the consultative relationships with the central and line

agencies that for Craik and Jones were essential for promoting management improvement. Secondly, he reduced the scope and scale of efficiency audit and altered the discourse that surrounded it. Thirdly, he changed the organisational and staffing arrangements for efficiency audit, eventually disbanding the EAD and transferring its responsibilities to the other audit divisions. This section discusses each of these revisions in turn<sup>76</sup>.

Brigden came to the position of Auditor-General in February 1981 intent on revising what he regarded as the ANAO's aberrant audit function (Funnell, 1994a, p. 380). However, with the first parliamentary inquiries into efficiency audit still underway and the government's post-implementation review of the function yet to begin (Hamburger, 1989, p. 11), he was at first limited in his capacity to effect significant change. Nonetheless, he took steps immediately to end the EAD's practice of consulting with central agencies over audit topics (Australia, House Standing Committee on Expenditure, 1985a, p. 138) and with auditees over the content and wording of audit findings and recommendations (1985a, p. 134), except insofar as was absolutely necessary under the efficiency audit provisions. For Brigden, practices such as these were an affront to auditor independence (see, for example, Funnell, 1994a, p. 383) and counterproductive to the efficient and timely reporting of audits (Australia, House Standing Committee on Expenditure, 1985a, p. 155). His preference for an arms-length relationship with the executive and its agencies<sup>77</sup> was consistent with his view that

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<sup>76</sup> The Brigden years are also notable for the Hawke Labor Government's moves to reform the APS (see Chapter 4). However, these had little impact on ANAO performance audit until the late 1980s, when the FMI Program and other government reforms began at last to influence the mindset of the APS.

<sup>77</sup> Brigden was not totally averse to cooperating with the central agencies, however. For example, in his submission to the Committee's review into public service efficiency review mechanisms (Australia, House of Representatives Standing Committee on Expenditure, 1985b, p. 439; see also Monaghan's evidence to the Committee at 1985a, p.

efficiency audit, like its financial audit counterpart, was essentially about public accountability (see, for example, 1985a, p. 136) rather than management improvement. For example, in evidence presented to the House Standing Committee on Expenditure in 1985, Brigden stressed that:

you must never do anything that will remove any of the responsibility from the departmental head or the top management of an authority for running the place properly. The managers should be allowed to manage and required to manage, and everything else should be devoted to seeing that they manage and to providing the assistance [to parliamentary committees] needed to see that they are managed (Australia, House Standing Committee on Expenditure, 1985a, p. 157).

Brigden's focus on retrospective accountability is arguably in marked contrast to Craik's view, noted earlier in this chapter, that the ultimate objective of efficiency audit was to promote improvement in the quality of public administration.

The second major change that Brigden introduced was his retreat from the large-scale, detailed research projects that typified the EAD's approach under Craik and Jones. He also revised Craik's General Audit Manual to reflect his own conception of efficiency audit (see Auditor-General, 1984, p. 51). Brigden believed that efficiency audits should be short, narrowly-focused affairs, ideally conducted on a three-year cyclical basis to extend and complement the ANAO's financial audit activities (Australia, House Standing Committee on Expenditure, 1985a, p. 129; see also 1985a, p. 441). This view was reflected in the recommendations of an inter-departmental committee that reviewed the function in 1983 (see Australia, JCPA, 1987a, p. 15 and 1989, p. 131; Australia, House Standing Committee on Expenditure, 1985b, p. 447; Hill, 1987, p. 59; and

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233), Brigden refers with approval to the lack of overlap between efficiency audits and Public Service reviews, which he argues was due to the Board's consultations with the ANAO on its proposed activities and the ANAO's willingness to take these into account when identifying audit topics.

Guthrie and Parker, 1999, p. 318 but note Hamburger, 1989, pp. 16-7). Brigden was not against the notion of efficiency audit *per se* and, in fact, believed that every Commonwealth body should be audited against a comprehensive set of standards “ranging from financial and legal compliance through to economy and efficiency criteria” (Australia, House Standing Committee on Expenditure, 1985b, p. 445). However, his vision of efficiency audit was narrower than Craik and Jones’ and oriented more towards matters that fall naturally within the domain of accounting expertise. The following extract from his evidence to the HR Expenditure Committee highlights the relationship he envisaged between efficiency audit and systems based auditing, an audit approach adopted by the ANAO in 1980 to facilitate its financial audit work. According to Brigden:

[b]asically, systems based auditing is oversighting controls, seeing what sorts of controls you have in place and how a place is managed and run for financial auditing purposes. That gives you an indication of what areas you should look at for efficiency auditing. If there is something wrong with a department in one particular area it probably flows through every area. If there is something deficient in the control over the [data processing] resources, if you look at that carefully, it will provide lessons for management to apply throughout (Australia, House Standing Committee on Expenditure, 1985a, pp. 138-9).

For Brigden, the ANAO’s adoption of systems-based auditing meant that the topics of interest to efficiency auditors could be audited under the general provisions of the *Audit Act 1901*, so making its efficiency audit provisions largely redundant. Indeed, most of the efficiency audits under Brigden were reported, or at least were intended to be reported<sup>78</sup>, under Section 54 of the Act in order to avoid what Brigden regarded as the formalism and complexity of the efficiency audit provisions (Australia, House Standing

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<sup>78</sup> A number of audits were begun under Brigden as Section 54 project audits but completed and reported to parliament by his successor, Monaghan, under the efficiency audit provisions.



Committee on Expenditure, 1985b, pp. 439-40). His capacity to exercise discretion over how efficiency audits were audited and reported was made possible by the same legislative anomaly that encouraged Craik and Jones to take a broad interpretation of the mandate (Australia, House Standing Committee on Expenditure, 1985a, p. 8), namely the lack of precision in the statutory definition of efficiency audit. Yet, whereas Craik and Jones believed that efficiency audits should be clearly distinguishable from Section 54 project audits, Brigden and his financial audit colleagues emphasised their similarities and obfuscated their differences (Funnell 1994a, pp. 392-6). One way they achieved this was by referring to project audits as value for money audits, so making project and efficiency audits seem similar in their objectives. This is exemplified in the following comment by Brigden's Deputy Auditor-General, Doug Hill, who argued that Section 54 was seen:

by successive Auditors-General as an authority to carry out audits of a value for money nature, commonly called project audits. It is still so used in situations where we see neither advantage nor need to invoke the formal efficiency audit provisions in the legislation. Project audits are in many respects similar to efficiency audits ... (Hill, 1987, p. 58).

Whichever section of the *Audit Act 1901* provided the authority for Brigden's efficiency audits, however, his capacity to conduct them on a cyclical basis was thwarted by a lack of audit resources. His frustration in this regard can be seen in his last report to the parliament (Auditor-General, 1984, p. 52) and in his later evidence before the House Standing Committee on Expenditure (1985a, pp. 129-39) in which he notes the limited staffing increase that had occurred with the advent of efficiency audit in 1979, draws attention to the 1985 staffing position in which the ANAO had fewer staff available for

efficiency audit than in 1979, and argues that a “modest” increase<sup>79</sup> in staffing and an upgrading of the classifications of senior staff were warranted to support the ANAO’s extended audit activities.

Brigden’s third significant change to the script for ANAO performance audit, effected towards the end of his term of office, involved the formal disbanding of the EAD and the integration of efficiency audit into the financial audit divisions, a process that had been going on informally and insidiously throughout Brigden’s term of office. In evidence before the House Standing Committee on Expenditure (1985a, p. 30), Jones notes that it was always the intention to absorb efficiency audit eventually into the financial audit divisions, even under Craik, and he initially accepted Brigden’s intention to do so. He believed, however, that the process should be “hastened slowly” so as to avoid the loss of “hard to get” skills. The 1983 inter-departmental inquiry referred to earlier in this section also concluded that efficiency audit should not yet be handed over to the financial audit divisions. Notwithstanding, this was the action that Brigden took throughout his term of office, steadily isolating and cannibalising the EAD until it was eventually dissolved in 1984. Brigden’s actions in so doing affected both the casting and staging of the script for ANAO performance audit as efficiency audit became the responsibility mainly of accounting-trained staff rather than the multi-disciplinary teams envisaged by Craik and Jones. Adams (1986, p. 193) notes that the disbanding of the EAD was greeted with concern by the parliament and the media as an indication of the Auditor-General’s lack of commitment to the further development of efficiency audit. Their concern is exemplified in the following comments about Brigden’s proposed

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<sup>79</sup> According to Monaghan (Auditor-General, 1985, p. 3), when the government of the day endorsed Brigden’s comprehensive approach to audit back in 1983, he had sought, without success, an extra sixty-nine staff to service the approach. This is arguably more than the “modest” increase that Brigden was now suggesting to the Committee.

restructuring, expressed by the HR Expenditure Committee in its report on the main battle tank audit, a concern that was noted earlier in this chapter:

Although the Auditor-General has the power under section 48E(2)(a) of the *Audit Act 1901* to carry out efficiency audits in conjunction with the regular audit functions, the Committee was concerned that such audits will be the only efficiency audits to be carried out in future and that their parameters will be determined by audit rather than wider efficiency-concepts. ... [The Committee is] concerned that the original intention of the 1979 amendment of the *Audit Act 1901* to provide for efficiency audits may not be fully realised (HR Expenditure Committee, 1984, pp. 10-1).

It is clear that Brigden's decision to disband the EAD was driven by his dissatisfaction with its performance and his general contempt for the Craik/Jones model of audit to which its members subscribed. Yet, the need to manage scarce audit resources was also a factor in his decision. Faced with a lack of qualified staff and an increasing financial audit workload associated with the Hawke Government's public sector reforms (see Chapter 4), Brigden decided that obligatory financial audits must take precedence over discretionary efficiency audits. This meant that only top priority efficiency audits could be accommodated within the ANAO's annual audit program. It also meant that audit staff needed to be flexible enough in their knowledge and skills to cope with both financial and efficiency audit tasks because, according to Brigden:

[f]or a bit over six months of the year everybody has to be working on attest audits, on financial audits, because all the statutory authorities and the departments have to report within a certain time. Everybody in the Audit Office has to be able to do that sort of work. That means that you have to have a very large predominance of accountants, not necessarily all accountants, but you have to have a lot of accountants in your mix. For the other five to six months of the year there are resources available to do these project or efficiency-type audits (Australia, House Standing Committee on Expenditure, 1985a, p. 135).

In his 1984 report to the parliament (Auditor-General, 1984, p. 52; see also Waterford, 1984, p. 3), Brigden complained about the control exercised by the central agencies over his resources and the constraints that this placed on the ANAO's ability to perform its functions. He even questioned whether the independence of the Auditor-General and his office from executive government was more apparent than real. His questioning was prophetic because, under Monaghan and Taylor, resourcing and independence issues posed a significant threat, not only for ANAO performance audit but also for the ANAO itself.

In summary, there are at least three reasons for regarding the Brigden years as problematic for ANAO performance audit and its progress towards institutional credibility, including the controversies noted in this section surrounding the EAD's efficiency audit reports, Brigden's retreat from Craik's vision of the function and the dismantling of its knowledge base, and the resourcing issues that became apparent during his term of office. With controversial audits and funding constraints also a feature of the Monaghan and most of the Taylor years, almost a decade was to pass before the institution of ANAO performance audit could reasonably be regarded as credible.

#### ***5.3.4.2 The Monaghan years (1985-7)***

When Monaghan took over as Auditor-General in February 1985, he decided to preserve Brigden's new organisational structure (Auditor-General, 1985, p. 12; see also Australia, House Standing Committee on Expenditure, 1985a, pp. 221 and 242) in order to avoid further disruption to his office. He also replicated the audit discourse that Brigden had introduced with his comprehensive, cyclical approach to audit, which Monaghan defined as:

a systematic program of examination of each auditee in respect of all elements of the public sector audit task, including legal and administrative compliance and efficiency aspects, within a comprehensive audit cycle extending over a specified period of years (Auditor-General, 1985, p. 12).

Yet Monaghan soon realised that Brigden's vision of a three-year comprehensive audit cycle was laudable but unattainable, with the ANAO having neither the resources nor the methodologies and skills to implement it. Instead, he established a system of priority-setting (Auditor-General, 1985, p. 8; see also Monaghan, 1986, p. 31) aimed at maximising coverage of important programs and activities while minimising the risks of failing to uncover significant deficiencies in public administration. In so doing, he gave official endorsement to the processes that Brigden had introduced to cope with the ANAO's staffing problems. Monaghan's contribution to the institutionalisation of ANAO performance audit was much more than consolidation and fine-tuning of Brigden's arrangements, however. Rather, his major contributions to its development, and thus the eventual achievement of its institutional credibility, were his adoption of administrative effectiveness as part of the Auditor-General's "official" audit mandate (Parker and Guthrie, 1991, p. 109); his public promotion of performance audit as part of modern state audit practice; and his highly publicised denouncement of the condition of state audit (for example, Burrell, 1987; Campbell, 1987a; Kelly, 1987; Tingle, 1987) that became a catalyst for the PAC's landmark inquiry into the Auditor-General and his office (Australia, JCPA, 1989). He is also notable for reversing Brigden's policy of conducting efficiency audits under Section 54 of the *Audit Act 1901*, with all major audits addressing economy and efficiency matters once again performed under the efficiency audit provisions (Australia, House Standing Committee on Expenditure, 1985b, pp. 538-9; see also Hamburger, 1989, p. 13). According to Monaghan, to do so

was to comply with the spirit of his enabling legislation (Australia, House Standing Committee on Expenditure, 1985a, p. 226).

The tensions surrounding the Auditor-General's role in effectiveness review, noted earlier in this chapter, first arose during the encoding stage in the institutionalisation of ANAO performance audit, when the main point of contention was the extent of the proposed efficiency audit mandate, and then again during the enactment stage, when it appeared that the Auditor-General's first efficiency audits had exceeded the mandate. The position that Craik argued before the RCAGA when efficiency audit was first debated was that there was no place for effectiveness in the audit mandate. Yet, when it came to putting efficiency audit into effect, Craik and Jones decided between them to push towards the effectiveness end of the review and audit continuum, a decision that generated complaints from auditees and concern from parliamentary committees. The PAC (Australia, JCPA, 1982, p. 44), in particular, was unimpressed by what it regarded as the Auditor-General's attempts to redefine the meanings of efficiency and effectiveness. In Monaghan's opinion (1988, pp. 70-1), however, the tensions aroused by the ANAO's interest in effectiveness arose from a failure on the part of auditees, politicians and, indeed, academics to appreciate the distinction between reviewing the effectiveness of government policy and auditing the effectiveness with which agencies achieve program objectives. Monaghan argued that all three auditors-general who had administered the efficiency audit provisions, including himself, accepted that administrative effectiveness was a legitimate part of their mandate under the Act (Monaghan, 1987, p. 75), a position he maintained throughout his tenure as Auditor-General. It is certainly true that effectiveness issues were considered in a number of EAD audits conducted under Craik and Brigden but they became much more prevalent during the Monaghan era and beyond (see, for example, Hatherley and Parker, 1990, p.

351, Table 33.2; Guthrie and Parker, 1999, p. 314, Table 2; and McCrae and Vada, 1997, pp. 204-12), with references to administrative effectiveness appearing also in ANAO speeches and publications. These factors suggest support for Parker and Guthrie's (1991, p. 109) argument that effectiveness achieved *de facto* status as part of the Auditor-General's mandate in the mid-1980s. It is notable, however, that the Auditor-General's role in effectiveness review was questioned once again during the PAC's enquiry into the Auditor-General and his office (see, for example, Australia, JCPA, 1988, pp. 416-24). Nonetheless, the following response from one of the agency witnesses to the inquiry suggests that although one PAC member<sup>80</sup> may have had problems in appreciating the distinction between administrative and program effectiveness, agency officials probably understood and agreed with Monaghan's interpretation.

Effectiveness of programs is a different question from effectiveness of administration of the programs. We are, in fact, addressing the effectiveness of administration which if you want to talk about wording is, in a sense, an efficiency concept. But, if we are talking about effectiveness, it will have different meanings depending upon the answer to the question: The effectiveness of what? It is not [the Department of Finance's] intention to suggest that the Audit Office is or should be involved in program effectiveness questions, but certainly administrative effectiveness issues are a part of what we would see as its mandate (Australia, JCPA, 1988, p. 752).

The second of Monaghan's contributions to the institutionalisation of ANAO performance audit and the establishment of its credibility was his public promotion of its role in modern state audit practice. This was achieved through a range of measures including conference and seminar presentations and a variety of publications, including

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<sup>80</sup> The member in question is Senator John Watson, a member of the Liberal Party, who represented Tasmania from 1978 until 2008. He was a PAC member for most of this period.

compilations of speeches (for example, AAO, 1986b, 1987 and 1988a), a guide to efficiency audit (AAO, 1986a) and the introduction of glossy annual reports on the ANAO's operations<sup>81</sup>. These various publications and presentations, which assisted in publicising the ANAO's extended audit function, focused on the role and scope of the mandate, its relationship with the executive and auditee agencies, its contribution to public accountability and management improvement, its methodologies and its challenges. During Monaghan's term of office, the term *performance audit* was commonly used in the audit discourse, as represented by his publications and presentations, to refer to these extended audit activities. Indeed, this was the term that was favoured by INTOSAI, of which Monaghan was President during his term of office. Consider, for example, the following extract from ASOSAI's<sup>82</sup> (1985) Tokyo Declaration.

One of the primary objectives of performance auditing is to enhance the accountability of executive agencies by providing information to decision makers in government, to the Parliament and through them to the public. Performance auditing has to be seen as complementary to financial regularity auditing, and not as a substitute for it. The intention of performance auditing is to create a greater awareness by the legislature and the public of the success, or otherwise, of public officials in obtaining value for money in public expenditure, in the utilisation of resources and in seeking to ensure that all due government revenue is collected. To achieve this objective SAIs must ensure that the standard and quality of reports on performance auditing are timely, factual, well-balanced with fully supportable findings and conclusions and contain sound recommendations for improvement

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<sup>81</sup> Prior to Monaghan's appointment, the Auditor-General's annual report to parliament had generally been incorporated and, arguably, buried within his statutory report on ministerial financial statements. In contrast, Monaghan's first annual report was tabled in parliament as a separate document, its purpose being to highlight the ANAO's achievements and challenges and enhance its accountability to parliament (Auditor-General, 1985, p. 2).

<sup>82</sup> ASOSAI refers to the Asian Organisation of Supreme Audit Institutions. It is one of INTOSAI's seven regional working groups.



where deficiencies are present. Public debate should be encouraged by the wide distribution of reports.

Another aim of performance auditing is to improve the quality of public administration by encouraging and promoting better planning, sound management practices, comprehensive and relevant information systems, economic and efficient utilisation of resources, constant evaluation against predetermined performance measures and appropriate mechanisms to correct shortcomings in achieving programme goals.

Notwithstanding INTOSAI's dual objectives for performance audit, however, Monaghan regarded public accountability as its principal aim, with improvements in public administration achieved as a consequence of the external audit process.

The key feature of the Auditor-General's role is the Auditor-General's central place in the cycle of public accountability whereby .... improvement in public administration, through the exercise of the external audit function ... is brought about through the responses of the Executive and its agencies to audit reports, and to reviews of those reports by Parliamentary Committees. Also important is the incentive which the auditing and public reporting processes gives to agencies to lift their performance (Monaghan, 1988, p. 65).

Nevertheless, Koehne (1987, p. 79), who was one of Monaghan's state managers, warned that the extent of the benefit to be obtained as a result of audit processes and reports was dependent on the receptiveness of auditees to audit findings. Auditee resistance to findings and recommendations was a feature of many of the performance audits completed during the Monaghan era. For example, in November 1985, Monaghan tabled an audit of the Department of Housing and Construction's construction project management which included more than twenty audit findings and recommendations. Of these, more than half were rejected by the auditee, including almost all of the audit's major findings. When the House Standing Committee on Expenditure tabled its report on the audit in March 1987, the chairman of the inquiry,

Mr Beale<sup>83</sup>, described the different positions adopted by auditor and auditee colourfully as follows.

The report of the Expenditure Committee which has just been tabled is a review of an efficiency audit report of the Auditor-General. The cover page of our report has an interesting drawing and an engaging title. The drawing depicts two buildings - one ultra modern and in excellent shape; the other, a building in ruins. The title is *An efficient organisation, or, an efficient audit?* Taken together, both the drawing and the title represent the difficulties the Committee faced with its review because the building in excellent shape represents the view of the Department of Housing and Construction of the quality of its administrative procedures for managing major construction projects; whereas the building in ruins represents the shambles that the Australian Audit Office saw in the Department's construction project management. Thus, major differences between auditor and auditee required the Sub-Committee of which I was Chairman to spend a considerable amount of the time not normally needed on this type of review (Australia, House, Parliamentary Debates, 1987, p. 1301).

Mr Beale also noted that the Committee's task "was made unnecessarily complex as a result of the contempt with which the Department treated the Audit report". When the rejected recommendations were examined, however, the Committee determined that the audit was "less than satisfactory" and agreed with the Department that the Auditor-General's recommendations could not be supported. Further, it concluded that the foundations of the audit had not been carefully laid, the projects selected for review did not comply with the Auditor-General's criteria for selection as outlined in his 1984/85 annual report or General Audit Manual, and the audit analysis had been superficial (Australia, House Standing Committee on Expenditure, 1987, p. 46) and naive. During his address to parliament, Mr Beale was especially damning of the Auditor-General and his report.

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<sup>83</sup> Julian Beale M.P., of the Liberal Party, was the Member for Deakin from 1984 until 1990, and then the Member for Bruce from 1990 to 1996.

In the foreword to the Committee report, I said that some of the Audit evidence lacked any credibility. In the matter of the site allowance dispute, Audit was clearly critical of the Department but backed away from this position under questioning and introduced new reasons to support its analysis of the dispute. This is unsatisfactory. At the minimum, it points to a lack of supervision within the Audit Office and an apparent readiness to accept, without internal testing, statements that are critical of the audited organisation (Australia, House, Parliamentary Debates, 1987, p. 1301).

According to Mr Mountford<sup>84</sup>, who at the time was the Chair of the HR Expenditure Committee itself, the tensions between auditor and auditee revealed in this and other audits belittled the efficiency audit process to which the parliament was committed (Australia, House, Parliamentary Debates, 1987, p. 1304). Nonetheless, Mr Mountford's comments suggest that, while contentious audits like the construction project management audit may have led agencies to question the technical competence of ANAO performance audit, and thus its credibility, the audits had not dissuaded the parliament from its faith in the function.

Another audit that demonstrates the tensions between auditor and auditee during the Monaghan years, and the struggles of the function to gain institutional credibility, is one that deals with the Australian Wool Corporation's property operations. This was also tabled in November 1985, having been commenced under Brigden as a project audit. The audit identified several areas in which the ANAO believed the Corporation's policies had affected the efficiency of its operations. The Corporation fundamentally disagreed with the audit's findings, claiming that the audit team had failed to take account of the complexity of the wool marketing environment, insisting that its property operations should not be considered in isolation from its other responsibilities, and

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<sup>84</sup> John Mountford M.P., of the Australian Labor Party, was the Member for Banks from 1980 to 1990.

challenging the ability of ANAO staff to make better commercial judgements and decisions than the Corporation's own board of management. In its review of the audit, the PAC (Australia, JCPA, 1987a) attributed the Corporation's concerns in part to the efficiency audit guidelines under which the audit had been conducted. These were the guidelines recommended by the 1983 inter-departmental committee inquiry into efficiency audit, noted previously in this chapter, which reflected Brigden's own conception of efficiency audit. For example, in his submission to the House Standing Committee on Expenditure (Australia, 1985b, p. 447), Brigden argued that audits should be focused sharply on a well-defined administrative function, undertaken quickly so that timely and relevant reports were presented with clearly specified recommendations, concerned only with program efficiency and not encroach into policy considerations, and followed up quickly by the agencies themselves and, externally, by Parliamentary review processes. Yet, the PAC concluded that two of these guidelines were particularly problematic, one of which was the recommendation about keeping audits sharply-focused. The PAC argued that there was:

a clear conflict between, on the one hand, undertaking a sharply focused audit which avoids the pitfalls of the early, broadly defined efficiency audits and, on the other hand, developing an accurate analysis of an administrative function which does not exist in isolation but is one element of the operations of a particular organisation and not necessarily its prime function (Australia, JCPA, 1987a, p. 15).

The second problematic guideline was the one dealing with encroachment on policy considerations. The PAC (Australia, JCPA, 1987a, p. 16) believed that the audit recommendations on policy matters went beyond an evaluation of administrative efficiency but recognised that, for commercial undertakings like the Corporation that are not primarily involved in administering government policy, the distinction between program efficiency and policy was "difficult to maintain". It concluded that the audit

highlighted the difficulties of applying the prevailing efficiency audit guidelines to audits of government business enterprises, that the Corporation's disagreement with the audit analysis and recommendations reflected a genuine concern with the "legitimate scope and character" of the audit, and that a review of the efficiency audit guidelines for government business enterprises needed to be undertaken. The PAC also argued (1987, p. 17) that the type of analysis that the auditors had attempted in this audit required specialist skills that "the Audit Office neither possesses nor is expected to possess" and that that ANAO should use consultants or advisers whenever specialist skills were required.

Other audits of the Monaghan era were also characterised by auditee resistance and/or negative parliamentary committee feedback, including audits of the Australian Taxation Office's Prescribed Payments System and the Commonwealth School's Commission's administration of capital grants to non-government schools, both of which were tabled in September 1986, and the Australian Government Publishing Service (AGPS), which was tabled in November 1987. The Prescribed Payments System audit incurred the wrath of the (then) Commissioner of Taxation, Trevor Boucher, who disparaged the experience and competence of the auditors and the quality of their evidence, and questioned the fairness and honesty of some audit findings and the prudence of others (Auditor-General, 1986b, pp. 62-6). According to the House Standing Committee on Finance and Public Administration<sup>85</sup> (Australia, 1988, p. 14), the audit represented a "nadir" in the relations between the ANAO and its auditee. Meanwhile, the PAC's review of the School Commission's capital grants audit (Australia, JCPA, 1987b, p. 35) led the PAC to berate the ANAO for its tardiness in conducting the audit, which it

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<sup>85</sup> The House Standing Committee on Expenditure was reconstituted as the House Standing Committee on Finance and Public Administration in 1987.

argued had caused many aspects of the report to become out of date. Both a breakdown in communications between auditor and auditee and staffing problems contributed to the ANAO's delay in completing the audit. The AGPS audit is notable also because it suggests the existence of an expectation gap between what the parliament expects from ANAO performance audit and what it could reasonably be expected to deliver within Westminster traditions of independent state audit. The Joint Committee on Publications (Australia, 1988) which reviewed the audit found that the AGPS had accepted all but one of the audit's forty recommendations and that these had provided a useful starting point for many of the reforms then in progress within the AGPS. Notwithstanding, the Committee (1988, pp. 16-7) complained that the audit had not provided "concrete solutions" to the AGPS' problems and rejected the ANAO's response that it was management's prerogative to deploy resources and implement solutions. Instead, the Committee recommended that "the planning and conduct of future efficiency audits ... lead directly to specific remedial action by the auditee". This recommendation is similar to one made in 1986 by the House Standing Committee on Expenditure (1986a, pp. 6-7; see also Alfredson, 1987, pp. 28-9), based on its review of five of Brigden's audits of the Australian Taxation Office.

The audit deficiencies exposed by these various parliamentary reviews suggest that ANAO performance audit still had some way to go before it could reasonably be regarded as institutionalised, legitimated and credible. In their publications and speeches, Monaghan and his staff were candid about the challenges facing ANAO performance audit, including the need to develop techniques and equip staff with the necessary skills and experience (see, for example, Monaghan, 1986, p. 29). In 1986, during an address to the (then) Australian Society of Accountants in 1986, Monaghan (1987, pp. 79-81) listed several matters of concern that had surfaced during recent

audits. The first related to the difficulties auditors faced in convincing technical specialists that performance audits focus on the quality of management and administration in their areas of expertise rather than the quality of their technical judgements. The second was the absence of clearly specified program goals and objectives and the inadequacy of performance measures to aid the ANAO in the evaluation of programs and activities. Monaghan expected the implementation of the government reform agenda to facilitate the ANAO's work in this regard. The third matter of concern was the lack of established audit standards specific to performance audit, with Monaghan noting, among other things, the "over-generalised" nature of the accounting profession's standards. The fourth, and final, matter of concern was the tension that performance audit could place:

on relationships between the AAO and the auditee arising, not least, from the intense public exposure of the auditee's management processes ... which in turn has the potential for placing strains on the relationship between the [ANAO] and the Executive Government (Monaghan, 1987, p. 80).

He was hopeful, however, that the public sector reforms would bring about a change in agency attitudes. Also problematic for Monaghan, of course, were the continuing resource constraints, which he said (1987, p. 81) "tempered" his ability to "refine our future targets" for performance audit, a point to which he was to return more forcefully in a later address (see Monaghan, 1988, p. 73). It was, however, his remarks in his third and final annual report (Auditor-General, 1987) that were to create a public furore about the parlous condition of state audit (see, for example, Burrell, 1987; Campbell, 1987a and b; Kelly, 1987; and Tingle, 1987) and which therefore best characterises his third significant contribution to the institutionalisation of ANAO performance audit. Specifically, Monaghan argued (Auditor-General, 1987, pp. 11-5) that his ability to perform his functions was being eroded by the inadequate level of his resources, his

inability to retain experienced professionals in a salary structure “grossly out of tune with the market”, the lack of regard for the significance of auditor independence shown by the Department of Finance during his dealings with them over the ANAO’s computing needs (see Australia, JCPA, 1986b and Wanna *et al*, 2001, pp. 121-3), the Department’s threat to review ANAO workloads which, for Monaghan, amounted to “a usurpation of the Auditor-General’s statutory responsibility to determine the manner in which the audit function is exercised” (Auditor-General, 1987, p. 14), and the erosion of his mandate caused by recent modifications to the statutory audit requirements for government business enterprises. His predecessor had raised similar concerns, especially about staffing levels and classifications (Brigden, 1984, pp. 52-4), attracting a degree of media attention (for example, McCathie, 1984, p. 3; and Waterford, 1984, p. 3) but it was Monaghan’s criticisms that had the more profound effect. Together with a report by the Independent Auditor (Cameron, 1987, pp. 7-8), which echoed Monaghan’s concerns, these criticisms “accelerated” (Australia, JCPA, 1989, p. 3) the PAC’s decision to examine the conditions of the Auditor-General and his office and the need for state audit reform. The outcome was Report 296, the findings of which led eventually to the replacement of the *Audit Act 1901* and the enhancement of the Auditor-General’s independence (see Chapter 4), although not until a decade after his concerns were so dramatically made public. The next section demonstrates that Report 296 was highly influential in the final scripting of ANAO performance audit, along with the actions and reactions of that “most embarrassing man”, John Taylor (Walsh, 1994, p. 14).

#### **5.3.4.3 *The Taylor years (1988-95)***

Monaghan retired from office suddenly in December 1987, soon after the release of his controversial 1986/87 annual report, leaving the position of Auditor-General vacant.



After several months, the position was eventually offered to Australia's Consul-General in New York, John Taylor, in May 1988. By the time he was able to take up the position, however, the PAC's inquiry into the Auditor-General and his office had already begun, thus throwing Taylor "feet first into a very substantial inquiry" (Australia, JCPA, 1988, p. 568).

Report 296 (Australia, JCPA, 1989) and the inquiry that produced it are of critical importance to the story of ANAO performance audit. In the first place, the evidence presented to the inquiry reveals how stakeholders, especially auditee stakeholders, perceived the function at the end of the 1980s, a decade after its introduction and coincident with the emergence of NPM, which ostensibly provided its rationale. Among the various submissions that the PAC received from auditee agencies, only one objected to the principle of ANAO performance audit, arguing that it lacked cost-effectiveness for commercial enterprises. Other agencies, however, expressed support for the function, including the Department of Social Security (1988, p. 2) which said it had no reservations about the ANAO's aims and objectives or concerns about the present responsibilities of the Auditor-General. Moreover, the Department of Arts, Sport, the Environment, Tourism and Territories (1988, p. 1) felt that the Audit Office had maintained an appropriate balance in its work and that its work was appropriate to its function and responsibilities.

Yet, while generally receptive to the idea of ANAO performance audit, auditee stakeholders were less accepting of its implementation and, consistent with the auditor-auditee conflict noted earlier in this chapter, prepared to challenge its credibility. They claimed, for example, that the ANAO was overly focused on compliance matters and overly-negative and critical in its reporting (Department of Social Security, 1988; ACT

Administration, 1988; Telecom, 1988); that ANAO auditors were incapable of understanding technically-oriented subject matter (Commonwealth Scientific and Research Organisation, 1988; Parliament House Construction Authority, 1988); and that performance auditors needed to provide more objective and constructive advice (ACT Administration, 1988; Department of Finance, 1988a). According to the Department of Finance (1988a, p. 714), in fact, the ANAO still had “a way to go to refine its methodology and bring greater experience to bear in the conduct of these more complex audits”.

Nevertheless, instead of contesting the Auditor-General’s right to an extended audit mandate as might have occurred in previous years, the Department of Foreign Affairs and Trade (1988; see also ACT Administration, 1988 and Australian National Railways Commission, 1988) argued that the new managerialist ethos of the public service required a major enhancement of the audit function to embrace all aspects of management. Further, the Department of Primary Industries and Energy (1988; see also the Department of Employment, Education and Training, 1988; and Australian National Railways Commission, 1988) wanted the mandate extended to an advisory function, a suggestion subsequently rejected by the PAC (see Australia, JCPA, 1989, pp. 117-8, Recommendation 25) and the Auditor-General (1989a, pp. 24-5) on independence grounds. These responses indicate a changing mindset among agencies towards ANAO performance audit, including a willingness to accept it as a credible function of state audit, albeit with reservations about its contemporary practice. In this regard, the emergence of NPM is clearly a factor. Yet, while some agencies saw ANAO performance audit as a potential source of assistance in coping with an NPM environment, others (for example, the Department of Foreign Affairs and Trade, 1988 and ACT Administration, 1988) interpreted the FMI Program’s initiatives such as

“letting the managers manage” (see Chapter 4) as an excuse for limiting their exposure to the more compliance-oriented forms of audit, which they regarded as a hindrance to innovation.

A second reason that the PAC’s inquiry is critical to the story of ANAO performance audit is to be found in the many recommendations relating to the function that are contained in its report. Of these, Recommendation 26 (Australia, JCPA, 1989, p. 131) is particularly significant because it demonstrates the parliament’s unambiguous support for the Auditor-General’s continuing responsibility for the function. More than a quarter of the seventy-eight recommendations of Report 296 (see Appendix I) relate specifically to ANAO performance audit but only six required a decision by executive government. The executive accepted three of these without question, namely Recommendations 11 and 26, both dealing with the continuation of the mandate, and Recommendation 37, which proposed that auditees advise the parliament of their timetables for the implementation of audit recommendations. Recommendation 16, which suggested the establishment of a funding formula for performance audit, was also accepted, conditional on the ANAO’s achievement of operational efficiencies. The other two recommendations, one dealing with fixed audit cycles (Recommendation 17) and the other with the Auditor-General’s discretionary right to audit government business enterprises (Recommendation 35), were firmly rejected. The executive’s refusal to implement Recommendation 35, in particular, was to become a source of contention between the Auditor-General and executive government. The remaining recommendations of Report 296 that are specific to ANAO performance audit are bound up with operational and reporting matters within the Auditor-General’s direct control. Taylor accepted eight of these without question, including one (Recommendation 33) proposing the secondment of auditee staff to audit teams.

Another six recommendations, including one requiring the use of multi-disciplinary teams (Recommendation 27), were accepted subject to resources. The final recommendation suggested that selected audits be completed within six months. Taylor accepted the principle that performance audits should take less time and agreed to experiment with the PAC's proposal.

A third reason that the PAC's inquiry is significant, and one that flows naturally from the recommendations of Report 296, is that it inspired many of the revisions to the script for ANAO performance audit that Taylor introduced during his seven years in office. According to his annual reports (Auditor-General 1990, 1991a, 1992a, 1993a and 1994a), these included:

- a heightened emphasis on methodology development and training;
- the use of questionnaires and other market research techniques for data-gathering;
- the establishment of multi-disciplinary audit teams;
- the introduction of cross-agency and follow-up audits;
- the extensive use of experts and seconded staff from auditee agencies;
- a new format for performance audit reports;
- a system of post-audit reviews to identify lessons learned;
- new consultative arrangements between financial and performance auditors to enhance the quality of audit work practices, and between the ANAO and its stakeholders to enhance the relevance of its audit reports; and
- a greater focus on major audit projects, which Taylor argued would allow for “more efficient management of performance audits and more consistently high quality audit results” (Auditor-General, 1992a, p. 28).

Guthrie and Parker (1999, p. 319) argue that the Taylor years are also characterised by a stronger emphasis on effectiveness and policy issues and Wanna *et al* (2001, p. 223) refer to his use of broad themes to ensure the performance audit program was appropriately targeted. According to a consultant interviewed during this study (Interview with Consultant #4, 15 April 2004), however, one of the factors with which Taylor wrestled during his term of office was the tension between public accountability and management improvement. This is exemplified in his 1989 address to the National Accountants in Government Convention in which he argued that:

[p]ublic administration in Australia is in a state of flux and a careful balance must be struck between ‘managerialism’, ‘contestability’, ‘risk management’, etc. and to whom and by what means public-sector managers are to be accountable (Taylor, 1990, p. 21).

In this regard, Taylor was not averse to using his powers under the *Audit Act 1901*, including the efficiency audit provisions, to report his concerns to the parliament on the public accountability implications of proposed legislation (see, for example, Auditor-General, 1991a and 1991b) and monitoring the implementation of reform initiatives such as contracting out (for example, Auditor-General, 1992b) and accrual accounting (for example, Auditor-General, 1994b). Yet he also took proactive steps to foster management improvement by, for example, documenting and disseminating examples of good management practice identified in his performance audit program (Auditor-General, 1992a, p. 27), an initiative perhaps more commonly associated with his successor.

Another significant revision of the Taylor years was the restructuring of his organisation into two “business” units, the one focused on financial audit and the other on performance audit. In other words, the Taylor years saw a return to the essence of

Craik's original structure. Announced in 1993 (Auditor-General, 1993a, p. 7) but delayed by industrial action<sup>86</sup>, the new structure was finally implemented in 1994 and has remained substantially unchanged ever since. Two of the participants in the empirical part of this study spoke of the advantages of Taylor's reorganisation, with one perceiving it in terms of the pragmatics of knowledge specialisation and the other within the context of NPM.

The separation allowed the Australian National Audit Office to have a strong business focus on product lines, being performance audit and financial statement audit ... particularly on the financial side, as ... the number of ... accounting standards went from half-a-dozen to the much larger number we have today. Auditing became so much more specialised. So you couldn't expect to have people who are very good at auditing financial statements also necessarily strong in understanding wider program management issues. I think if you look at the performance of the Australian National Audit Office in terms of its financial statement and its performance audit, I think it has driven some fairly significant efficiencies by having the two business lines and that focus (Interview with ANAO #14, 5 May 2004).

The idea was simply to have an Audit Office that had roughly about 50% of its resources directed towards financial statements and 50% directed towards performance auditing. And part of the thinking behind that was recognising the public service ... was changing and ... things like devolution and, you know, just the delegation of responsibility to departmental secretaries meant that it was even more important to have a stronger audit function. I guess that picked up on the theme that came out of the original Coombs report that made the recommendation for performance auditing that basically said you've got to have a public service where the managers can manage but to make sure that happens in the right way. There's got to be, you know, an improvement in accountability and transparency.

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<sup>86</sup> The controversial manner by which the restructuring was accomplished, involving staff retrenchments and an increased use of contractors where commercial and specialist skills were required (Auditor-General, 1994a, p. 11), led to confrontation between the Auditor-General and the Public Service Union, intervention by the Australian Industrial Review Corporation, considerable media attention (for example, Burgess, 1993 and 1994;) and expressions of concern in parliament (for example, Australia, House of Representatives, Parliamentary Debates, 1993b, pp. 2182-3).

And that's why they actually made the recommendation about having an efficiency audit function (Interview with ANAO #11, 18 March 2004).

Taylor's amendments to the structure, staffing and processes of performance audit were made possible by an increase in government funding following the release of Report 296, and efficiencies gained in the management of ANAO resources. Together, these allowed him to devote increased resources to his performance audit program (Auditor-General, 1991a, p. 14). Despite these improvements, however, the Taylor years were difficult ones for the ANAO and its staff, including its performance auditors. This was due in part to the disruption and disputation associated with Taylor's contested restructuring, in part to the tensions arising from Taylor's well-publicised confrontations with the executive (see, for example, Lawson, 1991; McKenzie, 1991; Bitu, 1992; Devine, 1993) over issues of mandate, independence and public accountability, and in part to a political controversy in which the ANAO became embroiled in the early 1990s over the leasing of its new premises (see, for example, Jones, 1993, p. 5; Ramsey, 1993a; Scott, 1993; Wanna *et al*, 2001, pp. 136-41). Further, the Taylor years featured a number of highly-contested audits, both financial and performance, that created yet another source of tension for ANAO staff. A cross-agency audit (Auditor-General, 1993c; see also Wanna *et al*, 2001, pp. 141-6) into performance pay, for example, required the exercise of the Auditor-General's precept power under Section 13 of the *Audit Act 1901* to obtain audit evidence. An ANAO executive who participated in this study spoke of the circumstances as follows.

Yeah, it was a cross-agency [audit], looking at performance management and performance pay. I guess the surprise in that was that agencies were so reluctant to pass on any information to the Audit Office about who was being paid what and for what reason and ... [it] caused a major blue between the then Auditor-General and a number of agencies and was the first time we ever precepted agencies for information. .... But the surprise in that was that the bureaucracy, I suppose, was

so guarded and so wishing to be not transparent about a number of issues (Interview with ANAO #11, 18 March 2004).

Another contested audit was a special report into APS financial management practices, prepared as part of the ANAO's financial audit program (Auditor-General, 1993d). This achieved notoriety when the (then) Treasurer, Mr Dawkins<sup>87</sup>, named the members of the audit team in parliament and, under cover of parliamentary privilege, questioned their competence and professionalism (Australia, House, Parliamentary Debates, 1993a, p. 935; see also Shailer, 1993, p. 17). A third contentious audit, and arguably one of the more widely known of the ANAO's performance audits, was the so-called "sports rorts" affair (Auditor-General, 1993b; see also Kingston, 1994; Wanna *et al*, 2001, pp. 146-9) which led to the sacking of a government minister. The audit dealt with the administration of a grant program run by the (then) Department of Environment, Sport and Territories to support community cultural, recreational and sporting facilities. The ANAO found anomalies in the Minister's approval of the grants but was unable to resolve them because of the lack of documentation supporting her decisions (Auditor-General, 1993b, p. vii). It also noted "that decisions on the allocation of grants were politically motivated could not be put to rest". The report was presented to the parliament on 16 November 1993, amid "shrieks" (Ramsay, 1993b) from the opposition, and was quickly passed to the House Standing Committee on Environment, Recreation and the Arts (HR ERA Committee) for review. The House Standing Committee on the Environment, Recreation and the Arts (Australia, 1994, p. 37) recognised that the Auditor-General had a clear responsibility to review the administrative and decision-making processes used by Ministers and noted that the

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<sup>87</sup> John Dawkins, M.P., of the Australian Labor Party, was the member for Tangney from 1974 to 1975 and for Fremantle from 1977 to 1994.



Minister had accepted the Auditor-General's findings and recommendations. Nonetheless, it issued the following reprimand to the Auditor-General.

[W]hen ever the Auditor-General ventures into politically sensitive areas he must maximise efforts to ensure that his reports are entirely objective, neutral, error free and beyond any reasonable expressions of doubt about his even handedness. It would also be preferable for him to confine his comments to the limits of the evidence available to him and not to enter into unsubstantiated speculation about what may have been the case or what might happen (Australia, House Standing Committee on Environment, Recreation and the Arts, 1994, p. 34).

With Taylor's combative style, his aggressive approach to the restructuring of his office, the resourcing problems that remained unresolved until the early 1990s, and the controversial decisions and reports noted in this section, the Taylor years were clearly troublesome for the ANAO and its staff. Yet, paradoxically, it was under Taylor that ANAO performance audit progressed to the fourth and final stage of its institutionalisation and achieved institutional credibility. The factors that support this view are considered in the following section.

### **5.3.5 An objectified and externalised audit institution**

The fourth stage of Barley and Tolbert's recursive model of institutionalisation entails the objectification and externalisation of patterned behaviours and interactions, whereby they become disassociated from particular actors and historical circumstances and acquire "a normative, 'factual' quality" (Barley and Tolbert, 1997, p. 102). In other words, patterns of behaviour and interactions become accepted and taken-for-granted by stakeholders as the way things are and ought to be. Previous sections of this chapter are focused on the processes of encoding, enactment and (repeated) revision of the patterned behaviours and interactions that, in this study, I refer to as ANAO performance audit, and, in so doing, identify a range of factors that sometimes assisted

and sometimes hindered the function in its struggles to achieve institutional credibility. At some stage during the early 1990s, however, the status of ANAO performance audit changed from an institution in the making to a taken-for-granted feature of Australia's modern public accountability framework. That is, it became institutionalised as a credible function of state audit. Exactly why this occurred during these years is unclear but it was probably due to a coalescence of factors: the support for ANAO performance audit provided by Report 296 and Taylor's adoption of its recommendations as well as the additional funding for the function eventually agreed to by the executive; the rise of NPM that helped make sense of the function and changed the APS mindset towards it; Taylor's combative style and skill in generating media and parliamentary attention; his confrontations with the executive over wider issues of mandate, legislative reform, funding (see, for example, English and Guthrie, 2000) and office accommodation that perhaps distracted attention away from matters of audit quality; and, lastly, the more than a decade of stakeholder experience of ANAO performance audit, much of it achieved without public contest and fanfare, that must have created a sense of normalcy about the function.

There are at least five indicators of ANAO performance audit's successful transition to its fourth stage of institutionalisation and achievement of institutional credibility. The first indicator is found in the parliament's increasing awareness and preparedness to comment on audit reports, including performance audit reports. This was noted by Taylor himself in his 1993/94 annual report (Auditor-General, 1994a, p. 29). It was not unusual for the parliament to show interest in an Auditor-General's report but during the 1980s this was most likely to occur following its review by a parliamentary committee. According to Mr Lusher (Australia, House, Parliamentary Debates, 1982, p. 862), this was accepted parliamentary practice. From 1989 onwards, however, after

the release of Report 296, audit reports were often commented upon immediately on their tabling in the parliament, especially by the opposition for political advantage. Further, their comments frequently included expressions of appreciation of the Auditor-General and his performance audits, such as the following:

I believe that this report demonstrates very clearly the value of the work done by the Auditor-General (Australia, Senate, Parliamentary Debates, 1991a, p. 2807).

I mention in passing that when we look at schemes such as this we very much need the Auditor-General's advice (Australia, Senate, Parliamentary Debates, 1991b, p. 4679).

I again congratulate the Auditor-General, who has a wonderful record on these sorts of audits and, particularly, the efficiency audits which he does on various aspects of Government (Australia, Senate, Parliamentary Debates, 1992a, p. 4478).

[T]he Auditor-General, as usual, has done an excellent job, considering his lack of resources. I think one of the outstanding features of the Auditor-General, and what most of us who are interested in the efficient operation of government look forward to, is the efficiency audits of the Auditor-General (Australia, Senate, Weekly Hansard, 1992c, p. 3795).

I rise to speak on the Auditor-General's report No. 19 of 1994-95, an efficiency audit of the validation of nursing home funding by the Department of Human Services and Health. It is very fitting that we take note of the Auditor-General's report on this matter because it was an earlier efficiency audit into the nursing home payment system which highlighted some of the systematic problems in the validation process which finally prompted the government to apply the necessary resources to attempt to complete validations in a reasonable time (Australia, Senate, Weekly Hansard, 1995, p. 872).

This last comment is especially interesting because it lends credibility to one of the EAD's early contentious audits. Moreover, the parliament took a dim view of auditee resistance to performance audit recommendations:

The Department has only agreed to or partly agreed with 12 of the 22 ANAO recommendations. ... I believe that this is a shallow response and I put on the record my extreme disappointment at the blinkered view of the Department in refusing to take on board many of the recommendations made by the Australian National Audit Office (Australia, Senate, Weekly Hansard, 1992d, p. 5406).

Politicians were not always supportive of the Auditor-General's reports, however. An audit of commercial activity in a defence organisation, for example, attracted the following reaction.

I have spoken before on the inappropriateness of efficiency audits by the Auditor-General in relation to the Department of Defence or any of its agencies because, quite simply, we are not dealing with a commercial venture which has a balance sheet and a profit and loss account. There is a degree of difference between the Department of Defence and its various agencies and any commercial activity. Nevertheless, I think it is important to read the Auditor-General's efficiency reports on defence agencies. I always read those with great interest (Australia, Senate, Weekly Hansard, 1992b, p. 1972).

A second indicator of ANAO performance audit's success in achieving institutional credibility is found in the increasing proportion of audit recommendations ostensibly accepted by auditees, summary evidence of which can be found in Taylor's annual reports. In Monaghan's reports (Auditor-General, 1985, 1986a and 1987) and in Taylor's first report (Auditor-General, 1988), there was no direct reference to the acceptability of audit recommendations but, rather, statements such as the following that are suggestive of the auditor-auditee conflict that characterised the Craik, Brigden and Monaghan years.

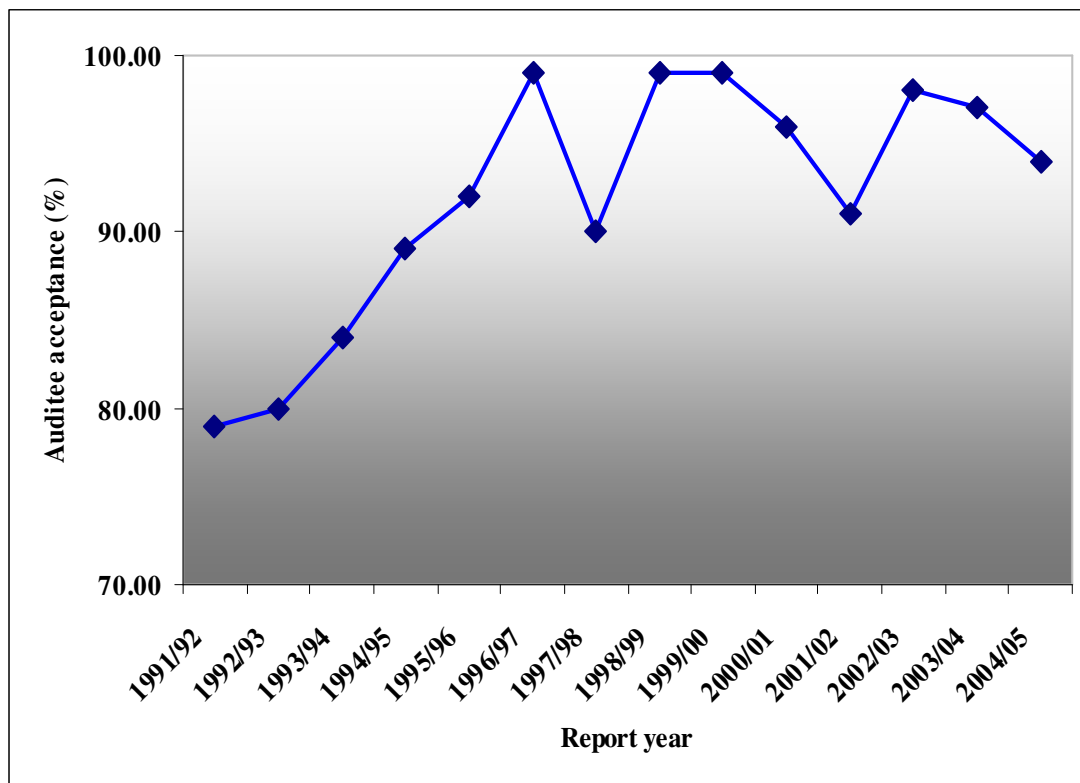
The audits are expected to result in improvements in financial and operational management of the activities subject to audit. The extent of the benefits derived is, however, contingent on positive action taken by the auditee organisation in response to the report's findings and recommendations (Auditor-General, 1986a, p. 11).

Auditee resistance is also indicated in the following extract from Monaghan's third and final annual report.

Irrespective of the reported auditee responses, it is apparent that the conduct of such investigations of an organisation's operations has a beneficial effect on that organisation's administration (Auditor-General, 1987, p. 28).

However, in Taylor's 1988/89 report there is a change in the rhetoric, with references to auditee receptiveness of audit findings and recommendations (see Auditor-General, 1989b, p. 64; 1990, p. 31; and 1991, p. 16). Statistics included in annual reports from 1991 onwards, which are mapped in Figure 5.5, demonstrate an increasing rate of acceptance of recommendations during the Taylor years, from 79% to 90%. While the average rate of acceptance during the Barrett years (1995-2005) is higher again, vacillating between 91% and 99%, Figure 5.5 suggests that, by the end of the Taylor years, auditees were generally prepared to accept the Auditor-General's reported recommendations. To the extent that auditee acceptance of recommendations is a plausible indicator of their attitudes to the function itself, these statistics provide further support for the view that ANAO performance audit became bedded down as a credible state audit institution some time during the Taylor years.

**Figure 5.5: Auditee acceptance of performance audit recommendations**



A third indicator of success in achieving institutional credibility is the decreasing tendency among parliamentary committees to comment on the quality of performance audits. Indeed, the last significant criticism of audit quality recorded in a parliamentary committee report occurred in 1997 (see Appendix J), when an inquiry into an audit of Commonwealth fisheries management (Australia, House Standing Committee on Primary Industries, Resources and Rural and Regional Affairs, 1997) led to claims that the ANAO had, among other things, failed to understand the complexities of the auditee environment and the uncertainties associated with fisheries management, and consequentially expressed unrealistic expectations of it. The parliamentary committee recommended that the ANAO increase its level of consultation with stakeholders and make greater use of consultants in complex areas where the ANAO “clearly does not, nor could be expected to have sufficient expertise to understand all the issues” (1997, p.

24). The last positive comment about an ANAO performance audit given in a parliamentary report was also recorded in 1997 (see Appendix K), when a review of an audit of Commonwealth guarantees, indemnities and letters of comfort prompted another parliamentary committee to declare that:

[t]he ANAO plays a significant role in detecting problems, and then chasing-up agencies to ensure they make changes to correct deficiencies. ... The ANAO audit has proven to be very useful in providing incentives to improve the management of the Commonwealth's exposure through guarantees, indemnities and letters of comfort. ... The Committee expects that agencies will follow the recommendations of the ANAO as is appropriate, with the aim of lifting the standard of management of the Commonwealth's risk (Australia, House Standing Committee on Financial Institutions and Public Administration, 1997, pp. 26-7).

A fourth, albeit indirect, indicator of the rising credibility of ANAO performance audit is provided by the Australian accounting profession's standards on performance audit, which appeared during the Taylor years. The first standard, AUS 33 (now AUS 806) was released in 1992 and deals with general audit principles and processes. The second standard, AUS 808 released in 1995, is specifically about audit planning in a performance audit context. In its promulgation of these standards, the accounting profession arguably normalised and legitimated the general notion of performance audit, while at the same time laying claim to its inclusion in the accounting domain.

A fifth, and final, indicator of the successful transition of ANAO performance audit to its final stage of institutionalisation, and thus the achievement of its institutional credibility, is suggested by the fact that Taylor's script for ANAO performance audit, including its organisational structure, staffing and methodology, was continued largely unchanged by his successor, Pat Barrett. With his preference for cooperation over confrontation, Barrett certainly brought a different style of leadership to the ANAO and

he also introduced a discourse on adding value that reflected his personal vision and preferred approach to dealing with auditee agencies. The ANAO's Better Practice Guides and generic, cross-agency Financial Control and Administration audits (Wanna *et al*, 2001, p. 224), which were designed to improve public administration without embarrassment to individual agencies, exemplify his client-centred orientation. For Barrett, there was an obvious nexus between contributing to public accountability and adding value to public administration (see, for example, Barrett, 1995), a position he maintained throughout his term of office. Indeed, in his final annual report (Auditor-General, 2004, p. 3) prior to his retirement in March 2005, Barrett claimed that adding value was the overarching aim of his office. Despite his different style and focus, however, Barrett maintained the basic structure and design of the Taylor model.

This is not to say, however, that ANAO performance audit was shielded thereafter from controversy nor that Barrett was free to perform his functions without hindrance or obstruction. Instead, like Taylor, Barrett faced a series of challenges during his term of office associated especially with the commercial arrangements and dealings of economic rationalist governments (see, for example, Funnell 1996, 1998 and 2004; see also Barrett, 2000). So, while value-adding was a common theme for Barrett, so too were the notions of public accountability and corporate governance. Of particular concern to him was the outsourcing or contracting out of government services which, for Barrett, could be problematic for contract management and performance accountability. He argued, for instance, that contracting out, while providing the benefits of cost efficiency and enhanced service delivery, can expose the public sector to increased risk and that:

a poorly managed outsourcing approach can result in higher costs, wasted resources, impaired performance and considerable public concern. ... The main



message from [the experience of my office] is that savings and other benefits do not flow automatically from outsourcing (Barrett, 2000, p. 61).

Part of the “experience” to which Barrett refers was an audit of the (then) Department of Finance and Administration’s outsourcing of information technology (Auditor-General, 2000b), an audit that is notable for, among other things, the Minister’s criticisms in the parliament of the Auditor-General’s methodology for valuing savings (Australia, House, Official Hansard, 2000, p. 22430)<sup>88</sup>. According to one of the study’s auditor-participants, however, the audit earned praise from other quarters of the APS.

IT outsourcing was another good one in that, OASITO, the Office of Asset Sales and IT Outsourcing, was very unhappy about that report. Most other agencies were secretly cheering us on because it meant that Finance’s and OASITO’s strong control over the IT outsourcing process just was dissolved, totally, because the outcome of the report was really to let the true devolution happen and give it all back to the agencies to make their own decisions about the outsourcing. Whereas before, OASITO had had a very heavy involvement in leaning on agencies to do what the government thought, whether or not it was right (Interview with ANAO #11, 18 March 2004).

Another audit that led the same government minister to attack the Auditor-General in parliament was one that dealt with property sales (Auditor-General, 2001; see also Mulgan, 2001, p. 38), including the Department’s divestment strategy and sale-and-leaseback arrangements. The audit team concluded, among other things, that the Department had failed to undertake a systematic process of inquiry into the leaseback transactions, as required under the Commonwealth Procurement Guidelines. In response, the Minister for Finance and Administration said:

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<sup>88</sup> The issues raised by this audit led to a PAC inquiry (Australia, JCPAA, 2001) into the adequacy of the *Auditor-General Act 1997*. Special attention was given to Section 19, which provides a framework for agency comment on proposed report, Sections 32 and 33, which considers the Auditor-General’s information-gathering powers, and Section 37, which focuses on the treatment of sensitive information. The PAC’s recommendations are concerned primarily with issues of access, disclosure and natural justice.

I have a high regard for the institution of the Auditor-General as an officer of the parliament and for the role that the Auditor-General plays in terms of the management of the government's expenditure and revenue. Having said that, there were some highly inaccurate comments made in that report and, dare I say, in some very lazy reporting on that report (Australia, House, Official Hansard, 2001, p. 29434).

A third audit that demonstrates the challenges of the Barrett years is the so-called MRI audit, which dealt with the effectiveness and probity of the processes surrounding a minister's proposal to improve access to magnetic resonance imaging (MRI) services and the registration of eligible providers and equipment on the Medicare Benefits Schedule (Auditor-General, 2000a). This was one of only two audits in the history of the ANAO where the Auditor-General exercised his precept power to gain audit evidence, the other being the 1993 audit of performance pay, noted earlier in this chapter. According to one of the study's auditor-participants:

[a]udits like the MRI, the magnetic resonance imaging audit, which involved a professional group of people that had ready access to [Queens Councils] meant you had to be very strong in terms of understanding your own legislation to have access because all the evidence on that was taken on oath (Interview with ANAO #8, 8 March 2003).

Arguably, however, instances of public disputation between auditor and auditee, like the three examples cited above, will not of themselves undermine the standing of ANAO performance audit as an objectified, externalised and credible state audit institution. Rather, denigration of a performance audit is likely to be seen as self-serving and counter-productive to the executive's interests (Mulgan, 2004, p. 33). For institutional stakeholders like the parliament and the media, government allegations of this kind are unlikely to shake their faith in the fondly-held institution of state audit, of which performance audit is now taken for granted as an integral part.

## 5.4 Summary and conclusion

Chapter 5 is the first of three chapters to explore the central theme of this study, which is the credibility of ANAO performance audit, with this chapter focused on its institutional credibility. With the aid of a theoretical lens provided by Barley and Tolbert's recursive model of institutionalisation, the chapter demonstrates the transition of ANAO performance audit from an untested, experimental idea to a taken-for-granted, credible audit institution within Australia's public accountability framework. It also reveals the problematic nature of this transition, with ANAO performance audit required to build expertise on the run, engage with stakeholders who felt confused and threatened by it, adjust to the competing interpretations and expectations of different auditors-general, and survive the actions and reactions of irate executive governments determined to limit the Auditor-General's intrusion into their affairs.

Its successful institutionalisation is also indicative of its credibility as defined in this study, not because it became an institution *per se* but because it became institutionalised as part of the fondly-held institution of state audit. In Chapter 1, I argued that a credible audit function is one that conforms to certain fundamental principles, namely auditor independence, technical competence and audit usefulness, which, through the lens of the new institutionalism, can also be construed as its rationalised myths. The analysis presented in Chapter 5 demonstrates that, at the institutional level, ANAO performance audit largely conforms to these myths. For example, it is ostensibly independent by virtue of its location within the ANAO and its association with the independence provisions of the *Auditor-General Act 1997*. The troubles that led to Report 296, noted in this chapter, and the general strengthening of the Auditor-General's independence that resulted from it, explored previously in Chapter 4, are inextricably bound up with the story of ANAO performance audit, such that a victory for auditor independence can

also be construed as a victory for ANAO performance audit credibility. Further, the technical competence that ANAO performance audit eventually achieved, at least at the macro level, is evidenced by the extent of stakeholder acceptance of audit findings and recommendations that is documented in audit and parliamentary committee reports, the tendency of parliamentary committees nowadays to accept audit reports without questioning their quality, and the general bedding down of the script for ANAO performance audit that occurred more than a decade ago during the Taylor years. Lastly, the perceived usefulness of ANAO performance audit can be construed from, among other things: the parliament's expressions of appreciation of audit reports; the capacity of those reports to invoke media interest and parliamentary debate regarding the substance, rather than the quality, of those reports; and the fact that the Auditor-General is sometimes approached, even by the executive, to conduct inquiries on matters of public significance, such as was the case with the MRI audit.

The story of the successful institutionalisation of ANAO performance audit provides support for the view that it is now perceived at the macro, institutional level as a credible tool of parliamentary scrutiny and public management improvement. The question remains, however, whether it is so regarded behind the scenes, as it were, by those most intimately involved in the staging of an ANAO performance audit, whether as auditor, auditee or parliamentary reviewer. This question is explored in the following chapters.

## CHAPTER 6

### **CREDIBILITY AT THE LEVEL OF MICRO-PRACTICE: RATIONALISED MYTHS AND TALES FROM THE FIELD**

*We've got a pack of introverts here who are working diligently away on heavily analytical tasks (Interview with ANAO #10, 17 March 2004).*

#### **6.1 Introduction**

Chapter 5 explored the institutional credibility of ANAO performance audit and, in so doing, demonstrated the long, confusing and contested nature of its institutionalisation. According to the historical record and the literature, many factors contributed to its difficulties, including an ambiguous mandate, problems of design and implementation, staffing issues and resource constraints, differing approaches to the function by successive Auditors-General, and the hostile responses of the executive and its agencies to the intrusion of audit into the realm of public administration. Yet, by the mid-1990s, ANAO performance audit had become accepted, and respected, as a normal responsibility of state audit within an environment of NPM. The legitimacy bestowed on it by the parliament

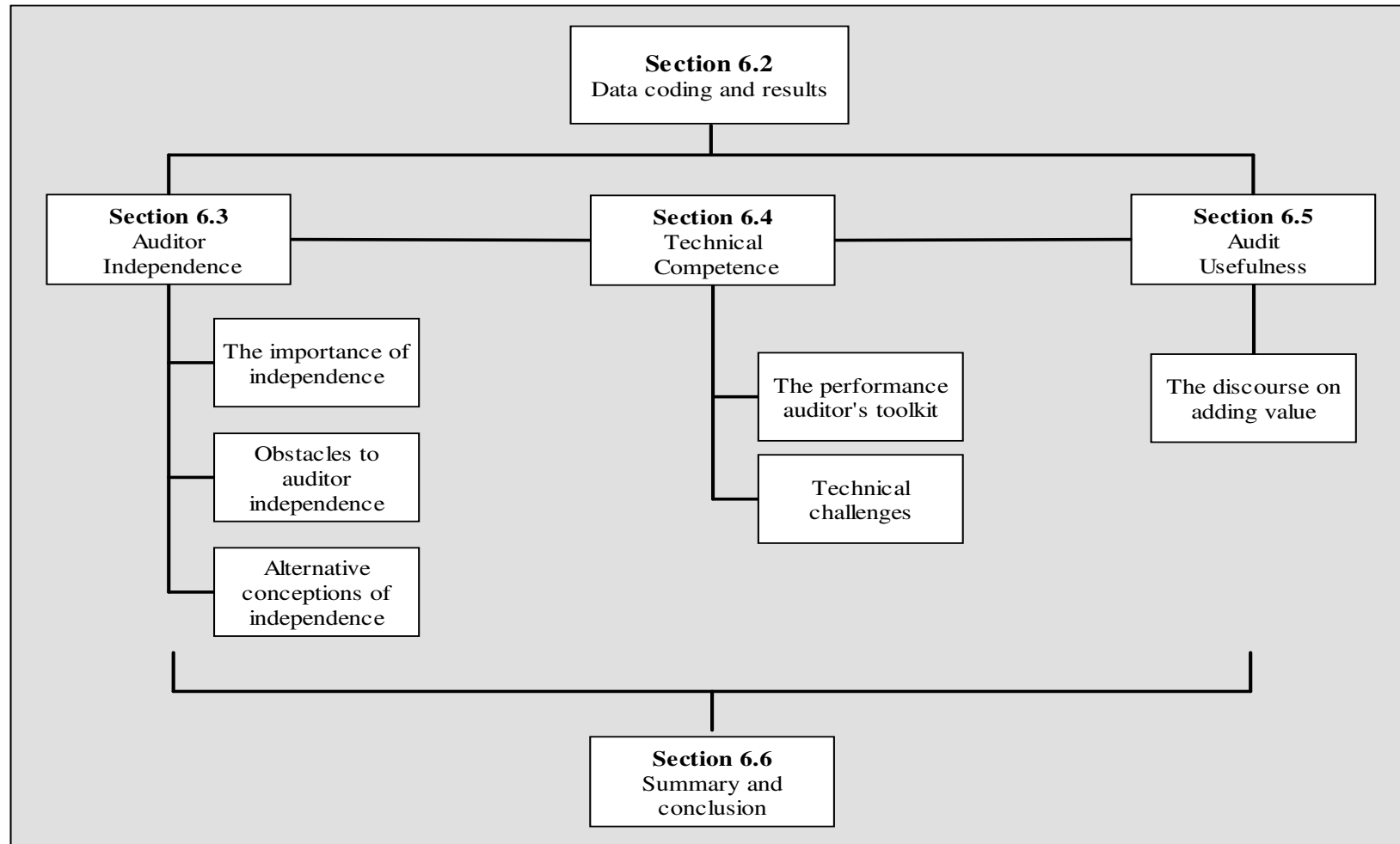
and others, including the political press, and their apparent readiness to respond to and act upon its reports, provide *prima facie* evidence of its credibility, at least at the institutional level. The combination of factors that led the parliament and other institutional stakeholders to regard ANAO performance audit as credible is one of the two research questions of this study. The other is bound up with how ANAO performance audit is perceived by those who deal with it on an everyday basis, and whether they, too, regard it as credible. It is this second research question that is the focus of this and the following chapter.

In Chapter 2, which, among other things, discusses the empirical design of this study, I note that the empirical data was gathered by in-depth interview and participant observation during an extended period of immersion in the field. I also note that this empirically-rich material was subjected to a three-stage coding process borrowed from grounded theory. I did not, however, explain the nature of this coding process nor the findings that ensued from it. These features of my research are explored, instead, in Section 6.2, which identifies the two streams of ideas to emerge from the data. The first stream examines the notion of audit credibility from the standpoint of the three audit credibility criteria articulated in Chapter 1, namely auditor independence, technical competence and audit usefulness. In other words, it is about the isomorphism (or otherwise) of ANAO performance audit with the rationalised myths of audit. By *rationalised myth* I mean the values, norms, rules, beliefs and taken-for-granted assumptions (Barley and Tolbert, 1997, p. 93; see also Chapter 3) that govern acceptable behaviour. My analysis of this stream of ideas, which is presented in the following sections of this chapter, yields mixed results about the micro-level credibility of ANAO performance audit, an outcome that is broadly consistent with findings reported elsewhere in the literature (see, for example, Radcliffe, 1999; Lapsley and Pong, 2000; Morin, 2001

and 2003; and Gendron *et al*, 2001) about the everyday practice of performance audit. The results of this analysis indicate deficiencies of auditor independence, technical competence and audit usefulness at the level of micro-practice, which in turn suggests that the credibility of ANAO performance audit is limited at this level, despite the apparent strength of its institutional credibility.

The second stream of ideas to emerge from the study's data deals with auditor-auditee relationships, including the hostility and suspicion that can exist between auditor and auditee, and the motivations and biases that colour their views about ANAO performance audit and about one another. This stream of ideas, and its significance for ANAO performance audit credibility, is explored in Chapter 7.

**Figure 6.1: The themes of Chapter 6**





## 6.2 The data coding process and its resulting themes

My analysis of the study's empirically-rich data began with an open coding phase, involving an intensive, iterative search for ideas of potential relevance to the study's central theme. These were sought within the transcripts of interview with the study's stakeholder-participants and in the observation notes that I recorded in the field. As each idea was identified, I coded the passages of text containing the idea to a unique identifier, known in the parlance of QSR NVivo (the software that I used to assist in the coding process) as a node. These nodes were progressively augmented, refined and redefined as the study progressed. Coding passages to nodes ensured that each idea was understood and analysed in context. General text-searching was also performed at intervals on the database as a whole, using the ideas previously identified in the data as search terms, as well as derivatives and synonyms of those ideas. For example, for the idea of *fear*, I searched on *fear\**, *fright\**, *afraid*, and *scar\**<sup>89</sup>. When ideas were identified in this manner, the passages surrounding the idea were coded, once again, so that the context could be preserved. Table 6.1 lists the nearly 200 individual ideas of potential interest to this study, resulting from this first-stage, iterative, coding process.

In the second stage of coding, which is analogous to Strauss and Corbin's (1998) axial coding phase, I determined a set of ten categories with which this plethora of ideas could plausibly be related. The first category deals with the participants' affective and behavioural responses to performance audit and one another; the second, with the objectives and challenges of ANAO performance audit; the third, with concepts traditionally associated with auditing and public accountability; the fourth, with auditees and their environments; the fifth, with factors that auditors consider when conducting

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<sup>89</sup> In other words, I performed what is known in the field of computing as a "wild card" search. "Scar\*", for example, identified "scare", "scares", "scared", "scaring" and "scary", all of which are connected to the idea of fear.

performance audits; the sixth, with audit practices, standards and technologies; the seventh, with the qualities and skills of performance auditors, both desired and observed; the eighth, with the individuals, organisations, reports and events that were mentioned by stakeholders during the interviews; the ninth, with the perceived impact of performance audit on stakeholders; and the tenth, with the study itself, including comments made by both researcher and researched. The third, and final, stage of coding was aimed at associating these various categories of ideas with themes that have a bearing on the study's central theme, namely the credibility of ANAO performance audit. This is similar in nature, although not in intent, to Strauss and Corbin's (1998) selective coding stage. Strauss and Corbin's approach is aimed at developing grounded theory, which Chapter 2 noted is not the intention of this study.

**Table 6.1: Categories of responses: the results of open and axial coding**

<b>Affective and behavioural responses:</b> Acquiescence, belief in performance audit, anxiety, assisting the auditor, biased, coercion, compromise, captured, concealment, concern, conflict, cooperation, criticism, defensive, defiant, delaying, dismissing the audit, dread, empathy, expectations, fear, game playing, hostility, ignorance, loyalty, managing behaviour, negative, nervousness, nitpicking, open-minded, paranoia, partisanship, personal attack, politeness, positive, pride, protecting the auditee, resistance, respect, rudeness, sensitive, stress, tension, threatening behaviour, uncertainty, wariness, worry.
<b>ANAO objectives and challenges:</b> achieving balance, accessing evidence, adding value, ANAO culture, auditee as client, auditees influencing the audit process, auditor/auditee interaction, competing roles, educating auditees, formal and informal communication, getting the desired outcome, legal challenges, improving audit skills, invidious position, intra-organisational tensions, managing the auditee, mandate, organisational structure, parliament as customer, political sensitivities, politicisation, public interest, quality assurance, rogue auditors-general, recruitment, reporting, resources, SES/ministerial involvement, staff support, training, timeliness, usefulness.
<b>Audit and public accountability concepts:</b> Accountability, credibility, evidence, impartiality, independence, objectivity, scrutiny, significance, transparency
<b>Auditee attributes:</b> Complexity, culture, frank and fearless, regional vs national office, robust agencies.
<b>Audit criteria:</b> Accountability, communication, compliance, consistency, cost/benefit, decision-making, effectiveness, efficiency, generally-accepted management principles, government policy, improvement, KPIs, measurement, monitoring, quality, rationale, reporting, risk management, security, structure, systems, training.
<b>Audit practice:</b> accessing evidence, advice, audit approach, audit criteria, audit standards, audit technology, audit techniques, document request, cooperating with auditees, exit

interview, using issues papers, negotiation, preparations for audit, recommendations, using consultants, hypothetical cases, using the media, using the ultimate weapon, writing the report.
<b>Auditor qualities, skills and attributes:</b> analytical skills, analysts not auditors, apolitical, auditor capture, audit personality, audit skills and knowledge, communication, competence, engagement with the auditee, fairness, focus on public administration, funny sort of people, ‘gotcher’, honesty, ideal team, independence, introverts, language, listening skills, people skills, power/strength, reasons for being a performance auditor, resilience, smart people, stick in the mud people.
<b>Entities, reports and events:</b> Audit legislation, auditors-general, Better Practice Guides, CEO, consultants, RCAGA, DOFA, departments, executive government, graduates, internal audit, JCPAA, media, the parliament, the opposition, origins and history of PA.
<b>Impact of performance audit:</b> assisting the auditee, audits drive change, contentious audits, juicy bits, making the auditee cry, new to the job, not my place, public administration, public management reform, role of audit, value-adding.
<b>Researcher/researched interactions:</b> Auditing the auditors, lab rats, participants’ views about research project, personal reflections, there is a god.

Guided by the study’s theoretical lens, the archival evidence considered in Chapter 5 and the categories determined during the previous stage of coding, I distinguished two streams of ideas that have relevance for establishing and exploring the credibility of ANAO performance audit. The first stream deals with the conformance of ANAO performance audit with the audit credibility criteria established in Chapter 1, which I associate with six of the categories listed in Table 6.1, namely: audit and public accountability concepts; auditor qualities, skills and attributes; audit criteria; audit practice; ANAO objectives and challenges; and auditee attributes. In Chapter 1, I argued that audit credibility is bound up with the central notions of auditor independence, technical competence and audit usefulness, which a wealth of studies in the financial and internal audit literatures (see, for example, DeAngelo, 1981; Shockley, 1981; Knapp, 1985; Carcello *et al*, 1992; Bartlett, 1993; Pasewark *et al*, 1995; Behn *et al*, 1997; Hopkins, 1997; Gorman and Ansong, 1998; Jeppesen, 1998; Flesher and Danzig, 2000; Umar and Anadarajan, 2004; Herrbach, 2005; Hellman, 2006; Samelson *et al*, 2006; and Power and Terziovski, 2007) suggest are linked to the notion of audit credibility. Seen through the lens of the new institutionalism, these

notions are the rationalised myths of audit and they provide the structure for the remaining sections of this chapter.

The second stream of ideas to emerge from the study's empirical data exposes the reactions of the study's auditor and auditee-participants to one another and the strategies that they employ in dealing with performance audit. Referring once again to Table 6.1, the categories implicated in this stream of ideas are fourfold: the impact of performance audit, the affective and behavioural responses, ANAO objectives and challenges, and auditee attributes. The latter two categories are shared with the first theme. This second stream of ideas provides the focus of Chapter 7. However, before proceeding to examine the first stream of ideas, which is the focus of the current chapter, I need to explain the narrative approach used in Chapters 6 and 7 to present the study's empirical findings.

In the traditional and internal audit literatures, studies that explore the characteristics of auditor independence, technical competence and usefulness have typically employed positivist approaches to research, such as experiments and surveys. While these formal, structured designs have provided valuable, generalisable insights into audit phenomena, the need to reduce, quantify and measure the data inhibits their capacity to capture and/or preserve the empirical richness of their sources. Interpretive studies, like this study, have the potential to capture and preserve this richness by allowing their subjects to express their ideas in their own way and, through the use of quotations, to have a voice in the presentation of the empirical findings. This is consistent with Strauss and Corbin's (1998, p. 43) view that the qualitative researcher achieves objectivity by, among other things, giving voice to his/her respondents. Examples of studies in the audit literature where subjects have been given a voice include: Radcliffe (1999), who provides an ethnographic account of how efficiency audit is carried out in practice; Herrbach (2005),

who explores the role of irregular auditing in audit firms; Van Peurse (2004), who examines internal auditors' self-perceptions of their work; and Hellman (2006), who focuses on the usefulness of management letters. Encouraged by these scholars and the wider literature on qualitative research<sup>90</sup>, I have adopted a similar presentational style in this and the following chapter. My contribution as an interpretive researcher is to structure and link the participants' ideas in accordance with the themes and sub-themes that emerged from the data and to reflect on their significance for the central theme of this study.

### **6.3 Reflections on the rationalised myth of auditor independence**

Auditor independence refers to the principle, long-entrenched in the audit discourse, that auditors must be, and be seen to be, willing and able to make objective, professional judgements, and to report them, free from the influence of those with a vested interest in the outcome. In their landmark treatise on auditing, Mautz and Sharaf (1961, p. 204) claim that the significance of independence "is so well established that little justification is needed to establish this concept as one of the cornerstones in any structure of auditing theory". Indeed, according to Power (1996, p. 290), it is external audit's independence and the associated implication of technical neutrality in the manner of its intervention in the audited entity that gives it its value. The fundamental importance of auditor independence can be seen in the attention paid to the concept in the audit literature at the level of both the audit firm (for example, DeAngelo, 1981) and the audit team (for example, Carcello *et al*, 1992; Hopkins, 1997; Samelson *et al*, 2006). Auditor independence, in the guise of impartiality, has long been recognised as essential for state audit as well. In the 1970s, for example, Normanton (1966, p. 159) argued that:

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<sup>90</sup> See, for example, Van Maanen (1988), Chenail (1995), Brower *et al* (2000); and Black (2006).

[i]n a society in which *informed* criticism is increasingly rare, the few prime sources of impartial reporting and comment based upon inside information are therefore of especial value. The list is a short one, and high upon it must figure the published reports of state audit. These are checked and double-checked for accuracy and are issued by officials who enjoy statutory protection against the pressures to which the citizen is exposed through authority, hierarchy and association. State audit is not a participant in the decisions of power, and it examines their consequences without involvement [emphasis in the original].

The following extract from a newspaper editorial which refers to the Victorian Auditor-General, published four decades after Normanton (1966), suggests that society's faith in the rationalised myth of the impartial state auditor remains as strong as ever.

It is a simple but often neglected point that the public service exists to serve the community and that the primary responsibility of government is to serve its citizens. The money it receives and spends is not its own. It is the public's. And the great mass of people, not being in a position to adjudge this themselves, need an office that will do it impartially, with dedication, fervour and the governing attribute of holding to account how that money is used. No government, no matter how long it has been in power, should think itself purely by its longevity to be above accountability. Nor should public servants think similarly (*The Age*, 21 September 2006, p. 16).

In Westminster-style systems of public accountability like Australia's, however, auditor independence has never been achievable in any absolute sense<sup>91</sup>. Like his private sector counterparts, the Commonwealth Auditor-General is independent to the extent that he or she possesses certain statutory powers and protections regarding, among other things, his or her appointment and removal from office, his or her discretion to audit and report, and his or her access to information, rights that ostensibly were strengthened with the passing

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<sup>91</sup> This is also true of private sector audit, where the literature on auditor independence is considerable. Recent examples include Caramanis' (1998) study of the impact of auditor-client relationships on auditor behaviour, Firth's (2002) study of auditor-provided consultancy services, Covaleski *et al*'s (2003) study of the dramaturgy of exchange relations between key stakeholders associated with the outsourcing of internal audit, Craswell *et al*'s (2002) study of fee-dependence, and Iyer and Rama's (2004) note on client perceptions of their ability to persuade auditors in accounting disputes.

of the *Auditor-General Act 1997*. Yet, previous chapters demonstrate that the Auditor-General and his office remain vulnerable to executive interference and retribution, regardless of their public portrayal to the contrary. This has been particularly obvious since the late 1970s, when the rise of performance audit and the consequent intrusion of state audit into government administration began seriously to test the patience of the Commonwealth government. Since then, the actions of successive auditors-general in defence of their independence, the consequent inquiries by the PAC into the Auditor-General and his office, and the actions and reactions of executive governments in response, have all played a critical role in the institutionalisation of performance audit. Scholars such as Funnell (1997, 1998, 2003), Houghton and Jubb (1998), Guthrie and Parker (1999), English and Guthrie (2000) and English (2003) have written extensively on the independence of Australia's auditors-general at both federal and state levels of government. The contribution of the present study to this literature is its special focus on micro-practice. Thus, whereas Chapters 5 considered the independence of ANAO performance audit from a macro, institutional-level perspective, this section deals with contemporary perspectives expressed by the study's diverse group of stakeholder-participants, including ANAO staff and consultants, Agency staff and members of the PAC, with a special focus on the independence, impartiality and objectivity of ANAO staff.

During my conversations with the study's participants, I recorded many occasions when reference was made to auditor independence, or to a synonym (for example, impartiality or objectivity) or antonym (for example, bias) of that concept. These references rarely arose as a result of a direct question on independence but rather were offered spontaneously during conversations on other matters, including the participants' initial expectations of performance audit, their understandings of the role of performance audit

and their experiences in dealing with auditors, auditees, the parliament and executive government. The participant observation phase of the study also yielded material of relevance to independence, especially in terms of how auditors deal with auditees in exercising their rights to information. The following sub-sections, which present three interrelated but distinguishable sets of reflections on auditor independence, is derived from my interpretations of this material.

### **6.3.1 The importance of independence**

The importance of independence for the Auditor-General and his office was referred to, directly or indirectly, by many of the study's participants. For example, consider the following comments, taken from a conversation with an ANAO executive.

ANAO #13: I have a high degree of respect for the parliament and the role it performs and have strong views on the importance of the parliament having independent, objective advice provided to it. ...

Researcher: So what is its role, from your point of view?

ANAO #13: The role of the Office? Well, yeah, I don't want to get simplistic about it, it is to provide honest, objective, professional advice to the parliament (Interview with ANAO #13, 5 October 2005).

Further, it is the attribute of independence that is believed to make state audit valuable to the parliament.

Having a truly independent auditor in the process is something that's valued by the parliament and one [the Agency] should facilitate ... It's in everybody's best interests. ... I think the independence of the Office is a very important thing (Interview with Consultant #2, 26 March 2004).



The connection between independence and reporting to the parliament was also raised in other contexts. For example, when asked if it is important that ANAO reports are tabled in the parliament, an ANAO field auditor responded:

Yes, yes, it's very important. It's very important that it's being tabled in parliament, that it's the Office and they're independent, you know, otherwise, they would give it a much lower priority, much less resources, and it'd be much less useful (Interview with ANAO #3, 9 December 2003).

The participant's view regarding the importance of reporting to the parliament is consistent with Jacobs' (1998, p. 355) observation that audits not reported to the parliament are less effective. Interestingly, it was not only auditor-participants who thought that auditor independence was important. For instance, when asked about his impressions of ANAO performance audit, a line manager replied:

I don't think it's too bad. The nature of the beast is that it needs to be a bit like it is. I like the independence of it, I like the idea that they come in with a fresh outlook (Interview with Auditee #1, 31 October 2003).

The empirical evidence gathered for this study also reveals a deep-seated belief and confidence in the independence provisions of the *Auditor-General Act 1997*, particularly among auditors and PAC members. Consider the following conversation with an ANAO executive.

Researcher: So that brings us on to another issue, are parliament and the JCPAA sufficiently strong to support the Office? Because I've heard people say, you know, that it's a different world out there now [since the introduction of government initiatives such as outsourcing].

ANAO #11: Oh it is but, you know, the Office has tremendous scope in itself to increase the pressure or decrease the pressure. We've got a strong Act, a world class Act, and lots of powers in that Act that we don't use. And so I'd be reticent to go to parliament and say, you guys need to be tougher and more supportive, when we're

not even using the legislation they've given us in the first place. I think that would be a flawed sort of approach (Interview with ANAO #11, 18 March 2003).

Other ANAO executives were similarly impressed by the strength of the legislation and confident of its independence provisions.

That's right, the [*Auditor-General*] Act is very, very strong and it's been tested out in a number of places, so mandate-wise and coverage-wise, within the Commonwealth, it's extremely strong (Interview with ANAO #8, 8 March 2004).

I think that [the introduction of the *Auditor-General Act*] was seen as an important and symbolic measure to reflect the Office's independence and special relationship with the parliament, to have its own legislation, to make very clear the independence of the Auditor-General, to give the JCPAA the opportunity to review the budget of the Office, and, very significantly and perhaps uniquely, to have a say in the appointment of the Auditor-General, the next Auditor-General ... Quite frankly, if the Chairman of the JCPAA was to stand up and say "I think the resources for the Office are insufficient", I think the parliament would take notice of that, and the government as well, of course (Interview with ANAO #14, 4 May 2004).

A member of the PAC was also confident of the Auditor-General's powers under the Act.

When asked if he thought it could be further improved, he replied:

No, I don't. I don't know what you could do. He's totally independent of the executive. He's independent of us. He doesn't have to listen to us. The fact that we talk to each other is a cooperative venture more than anything else because we're both after the same thing; we want improved public sector performance. And we want decreased fraud and ... improved public accountability with the necessary transparency. I don't honestly know that there's anything we could do to improve that, I really don't (Interview with PAC #1, 3 June 2006).

Moreover, a conversation with a consultant and former ANAO employee revealed a long-standing belief in the Auditor-General's independence that pre-dates the current legislation.

Back in the days of my performance audit training, the number one thing about performance audit was its independence. ... We certainly behaved in ways [as if we] were. ... We thought of ourselves as completely independent and the advent of the *Auditor-General Act* didn't bring the slightest change in the way in which we would go about doing things. We were totally, we believed we were totally independent (Interview with Consultant #6, 10 July 2006).

The idea that a performance auditor can be “totally independent” is debatable, however, especially considering the choices that need to be made in designing, conducting and reporting a performance audit (see, for example, Radcliffe, 1999). The next section examines this and other potential obstacles to independence, as perceived by the study's stakeholder-participants.

### **6.3.2 Obstacles to auditor independence**

For the Auditor-General to have at least a chance of achieving independence in the exercise of his or her powers, they must be strong enough, and respected enough, to ensure full and free access to evidence in a timely manner. There must also be genuine freedom to report without interference or intimidation by the executive and its agencies. Despite the confidence in the audit legislation revealed in the previous section, my conversations with auditors, consultants and auditee-participants found that obstacles to auditor independence are still seen to exist. The most frequently mentioned of these were problems in gaining access to evidence and auditee challenges to audit findings. Concerns were also expressed, however, about the personal independence of individual auditors and the ANAO's resource independence.

Not surprisingly, problems in gaining access to audit evidence and challenges to audit findings were noted predominantly by the study's auditor-participants. According to an ANAO executive, for example, the tactics used by auditees to limit access to evidence can include:

[e]verything from having key staff not being available to throwing up legal challenges with respect to privacy [and] the commercial nature of transactions. They will say documents aren't available because it's better to go down on poor document management than, say, some serious matter. We probably use more legal advice now than we ever did (Interview with ANAO #8, 8 March 2004).

ANAO #8 went on to refer to the MRI audit (Auditor-General, 2000a), which was identified in Chapter 5 as a recent example of mandate challenge.

I'd say in the last three years, we have used a lot of legal manpower to clarify our mandate, not just across jurisdictions but even within the Commonwealth, and especially with the private sector as well. Audits like the MRI audit, which involved a professional group of people that had ready access to [Queen's Councils], meant you had to be very strong in terms of understanding your own legislation to have access because all the evidence on that was taken on oath (Interview with ANAO #8, 8 March 2004).

The following comment by a field auditor, made during a conversation about relationship management in the Agency, also exemplifies what the auditor-participants saw as obstructive behaviour.

The fieldwork or reading the documents or data analysis, most of that's pretty straight forward but they're so touchy and so prickly that something as basic as trying to analyse a data set becomes a major negotiation exercise in terms of getting access to it, how you're going to do it, what the analysis will entail, what are we trying to prove, is it in the scope of the audit, all those things that keep coming up all the time (Interview with ANAO #5, 2 February 2004).

In response to a question about the source of this touchiness, ANAO #5 replied:

You won't necessarily find a minute that says this is our approach and how we're going to handle the Office for this particular audit. Key SES<sup>92</sup> [staff] will be privately briefed by, perhaps, the deputy secretary of the department and told: "Make

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<sup>92</sup> SES is an acronym for Senior Executive Service and refers to staff employed under Section 34 of the *Public Service Act 1999*. These staff occupy senior leadership roles within the APS.

sure the audit doesn't expose us to X, Y and Z". And I think the message pretty clearly is, if you fail in that, you fail, you know, in your task. So I think a lot of those senior public servants then realise that their role is not so much to cooperate with us but to minimise damage to the agency. And so, straight away, we're at cross purposes. Our role is to have an independent examination. Their role is to minimise the actual impact we have (Interview with ANAO #5, 2 February 2004).

That auditee agencies may be less than cooperative in their dealings with the ANAO is evident in the following extract, taken from a conversation with another field auditor.

Researcher: With these different agencies, is there a sort of common strategy ... that the agencies use to deal with auditors or does it vary quite a bit?

ANAO #7: It varied up until just before the [2001] election and then I found out by accident that Max Moore-Wilton<sup>93</sup> had put out a directive to the agencies that the Office was to be dealt with in a specific way. And that was let slip to me in a meeting with one of the agencies. And the smaller agencies still kept doing their own thing but the parent agencies started really making it a bit difficult for us in obtaining information. Rather than volunteering information, we had to ask for it, I noticed that. That was a big change (Interview with ANAO #7, 25 March 2004).

Later, ANAO #7 spoke of the Agency's use of audit liaison officers<sup>94</sup>, which he regarded as an attempt by agencies to manage and put pressure on ANAO staff.

ANAO #7: This is new. And the biggest surprise was, on this audit, right at the beginning, on the first fieldwork trip we did to Melbourne, the [auditee staff] introduced themselves as managing the audit from [the Agency's] side. I've never heard that before. That was, to me, strange, you know, and surprising, I guess.

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<sup>93</sup> Max Moore-Wilton was the Secretary of the Department of Prime Minister and Cabinet from 1996 to 2002. In this role, he exercised considerable power and influence within the Australian public sector. He was known popularly as "Max the Axe" because of his ruthless management style.

<sup>94</sup> Despite ANAO #7's concerns, the use of audit liaison officers is not unique to the Agency. Sharma (2007, p. 297), for example, notes that audit liaison officers were used by both agencies involved in her study of the NAO. Their role, to answer questions and provide the audit team with information, is similar to the one I observed in the audit liaison officers who took part in the present study. Their role was not a disinterested one, however, and they sometimes reacted with hostility towards their respective audit teams, particularly in the early stages of the audit.

We've had points of contact [before], primary points of contact, and it was usually internal audit, not people outside of internal audit. Now we have a dedicated contact.

Researcher: How have you handled that? Does that raise the stakes? Do you feel threatened by that?

ANAO #7: At first it was fairly threatening ... because ... we had a very good relationship with internal audit [and] now all of a sudden we're dealing with people who are working directly to the Minister. ... Everything that we spoke about in meetings was reported back to the Minister and that became a bit of a worry because it politicised the whole thing. All of a sudden you're not just auditing, you're also under the microscope for any mistake that you make (Interview with ANAO #7, 25 March 2004).

The notion of politicisation was also mentioned by one of his colleagues.

To me, the biggest issue is the politicisation of the public service. And I'm surprised at how low within the structure that's occurring. I mean, I can see perhaps at the [First Assistant Secretary] level now down to the Assistant Secretary level, where, yeah, it's almost like, we've lost frank and fearless. I find that really difficult and that obviously impacts on what happens when we audit (Interview with ANAO #6, 10 March 2004).

Besides deliberate obfuscation, ignorance can also create obstacles to accessing audit evidence, indications of which can be found in the following remarks about how the ANAO attempts to prepare auditee staff for audit.

We'll have a paper about the audit [and] the performance audit function - that's all in the booklets and things that this place has. So, we send those to people in advance because, what I find is, when you're dealing with the junior bods, they're alarmed about who we are, what we're doing, what it all means. And some people won't appreciate that you can access records, so you can have a counter-productive argument about 'you can't access this' because they don't want to breach their secrecy clearance (Interview with ANAO #4, 14 January 2004).

Perceptions of ignorance among auditee staff made some auditor-participants cautious about the manner in which the Auditor-General's rights of access should be exercised. This is revealed in a conversation between a couple of field auditors during a joint interview.

ANAO #1: A lot of people in public sector departments now do not understand the role and powers of the ANAO and so, even though you explain it to them, they're not actually listening, and so, you know, it gets to the circumstance where they don't understand that if you ask for something, they actually have to give it to you, and we don't want to go in there saying, 'I've got the Audit Act, you have to give it to us!' ...

ANAO #2: Yeah, that's another skill actually, trying to balance the extreme coercive power that we have. ... if you fire off your ultimate weapon, of course, you've got nothing left.

ANAO #1: And the Auditor-General, indeed, doesn't want to fire off the ultimate weapon but I think from time to time one should do it as a lesson. A salutary sort of lesson (Interview with ANAO #1 and ANAO #2, 25 November 2003).

By *ultimate weapon*, ANAO #2 is referring to the Auditor-General's precept power, which is his power under the *Auditor-General Act 1997* to issue a lawful demand or direction<sup>95</sup>, a power that was referred to in Chapter 5 in relation to the MRI audit and an

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<sup>95</sup> The following extract from the proceedings of a Senate hearing into the Auditor-General Bill (Commonwealth of Australia, 1997, p. 447) provides further insight into the Office's reluctance to use this power.

**Senator COONEY**—Thank you very much. If you look at the information gathering powers and secrecies, you have the ability to get information from people, even though that information may tend to incriminate the person. Do you ever use that provision?

**Mr Barrett**—I certainly have not used it. I am not aware that that has been an issue that is on our files.

**Mr Coleman**—There has been a longstanding requirement for people to give information and evidence to the Auditor-General. That is a central tenet of the Auditor-General being able to do his or her job. The way it is written, it is very much seen as a reserve power to require people to give evidence and so forth. There have only been two instances in 96 years where there has been a formal precept issued to Commonwealth officers to require them to produce evidence. In neither case has this issue ever caused a difficulty.

**Mr Barrett**—It was not an issue of incrimination either; it was a question of privacy.

earlier, cross-agency audit into performance pay, reported by Taylor in 1993. During the participant observation stage of this study, there was only one occasion when I witnessed an auditor making an overt appeal to the Auditor-General's statutory powers of access. This occurred during one of the first audit activities that I observed in the field.

J interrupts - asks whether this question would be more appropriate if directed at someone else. P\* stresses that the ANAO decides what questions to ask and of whom. A moment of tension. P\*'s comment seems to have been initiated because her staff were having difficulty in answering a question, which seems to have political or emotive issues attached to it (Observation #2, 18 September 2003).

However, the following comments, recorded in a later interview with Auditee #2, suggest that "firing the ultimate weapon", as ANAO #5 may have had in mind, can have repercussions for auditor/auditee relations. Indeed, the incident led the Agency to lay a complaint against the auditor involved.

I find P\* to be fairly rude at times, you know, and actually inappropriate in his behaviour ... you know, the quoting of the Audit Act, and saying "we've got every right to do anything we want to, blah de blah" and, you know, pretending to wave an Audit Act around. I just don't think that's a particularly constructive way to go (Interview with Auditee #2, 18 November 2003).

Issues of rudeness and aggression in auditor-auditee relations were noted by a number of auditor-participants, mostly however in terms of the behaviour of senior auditee officials towards audit staff. For example, when asked about the personal skills that auditors require in dealing with auditees, an ANAO executive offered the following observation.

With an audit you're dealing with senior people all the time. ... It doesn't matter if you're an APS 5 or an APS 6 or an EL1 or an EL2<sup>96</sup>, at times when you're doing

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<sup>96</sup> APS 5, APS 6, EL1 and EL2 refer to APS position designations. The most senior of these four levels is Executive Level 2 (EL2), which in the ANAO is the designation of staff with



performance audits you're going to have [Deputy Secretaries] and [Secretaries] and First Assistant Secretaries breathing down your neck, yelling at you, abusing you, all sorts of things ... That's not the dominant feature of a relationship [with an auditee] but it can be a strong feature of a relationship, especially if you've got a sensitive audit that's actually saying something. ... You get your auditors being put into a corner out in the field, [being told] they're idiots and they don't understand the commercial environment and they don't understand the policy environment ... so, you know, it can be quite stressful to actually follow through on that and say: "No, you're wrong. I don't care if you're the Head of OASITO<sup>97</sup> or the Secretary of Finance or whoever, I'm an APS 6 and I looked at this and it's wrong." That's a tough job sometimes (Interview with ANAO #11, 18 March 2004).

In a study of auditor-client relations at the organisational level, Pasewark *et al* (1995, p.88) found evidence that powerful client employees can intimidate at least some in-charge auditors and that this intimidation can cause difficulty for them in maintaining an objective attitude. Although Pasewark *et al*'s study was conducted in a traditional, private sector audit setting, it is reasonable to suppose that the objectivity of some ANAO performance auditors might also be compromised by aggressive senior agency staff. In the audit literature, loss of objectivity has long been equated with problems in resisting client pressure (see, for example, Goldman and Barlev, 1974; Knapp, 1985; Goodwin, 2002; Umar and Anandarajan, 2006), yet the following remarks suggest that auditee aggression can make auditors belligerent towards the auditee rather than subservient to it, which in itself constitutes a threat to auditor independence.

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responsibilities that are similar to private sector audit managers. Secretaries, Deputy Secretaries and First Assistant Secretaries are the positions held by the most senior ranks of the APS, that is, the SES.

<sup>97</sup> OASITO is an acronym for the Office of Asset Sales and IT Outsourcing. ANAO #11 was referring to ANAO Report No. 63 of 2001-2002 Management of the DASFLEET Tied Contract, a highly controversial audit in which the auditees were criticised for failing to cooperate and the auditors for the accuracy of their calculations (see, for example, Senator Eggleston's comments during parliamentary debate on the Finance and Public Administration's Report on the government's information technology outsourcing strategy (Australia, Senate, Official Hansard, 2001, p. 26809).

I think [auditee hostility] can get stressful when they start making it a bit personal ... because you're not only guarding the reputation of your audit, you're also guarding your personal reputation, and that's when it does become stressful. I haven't been on the end of too many personal attacks but when it does happen, it makes you, I guess, a lot more aggressive towards the agency as well. But, you have to then bring yourself back and say, hang on [*laughter*], you can't sort of carry it on. You have to be the first to step back and say, stop (Interview with ANAO #7, 25 March 2004).

Similarly, the auditor's objectivity can be impaired by personal beliefs, affiliations and relationships against the interests of the auditee. Consider, for example, the following conversation with an ANAO executive.

ANAO #8: You've got to watch what I call the religious fervour, where you get an auditor who may, say, have greenie tendencies and wants to get in and audit, say, something like Agriculture, Fisheries and Forestry - Australia, dealing with the forest industry or fishing, and they want to go out and prove the point, you know, that AFFA's depleting the oceans of fish.

Researcher: So that they've got a personal independence issue.

ANAO #8: So their independence is at issue and I'm very guarded against that, and this notion of independence even goes to being very careful about people's backgrounds. Like, you know, we have instances, for example, where a person's relative might work in an agency and it can cause friction, so you know, you've got to be ...

Researcher: That could be very difficult with very large agencies, like Defence and Centrelink, where you're bound to have someone who's had some interaction with that agency.

ANAO #8: You bet and yet I've found where it's been an issue. So, it's [the same] when we use professional people to help us as well, contractors. Like, the notion of independence, perceived independence, is a big issue now (Interview with ANAO #8, 8 March 2004).

That auditee agencies also expect ANAO auditors to be independent of the programs they audit is suggested by the following remarks, made by a line manager.

The thing with this recent audit was that they put someone into the audit, it's still a problem, we haven't sorted it out, who used to work in [the auditee agency] in one of the areas that they visited, and whose mother still works there and she's been a performance issue. So ... I don't know how it'll turn out but you have to question the person's objectivity. ... And [the audit team] didn't think it's a big deal but it is to us. But we'll see. We'll have a look at the reports. If they don't look biased I guess it won't matter but I think that was insensitive of them (Interview with Auditee #8, 16 March 2004).

Another obstacle for auditor independence, in fact and appearance, is the lack of relationship distance between ANAO staff and their auditees, which Scott (2003, p. 206) argues results from the ANAO's preference for staff with recent experience in audited institutions. Consistent with this view, a field auditor argued that:

[t]he culture [of the ANAO] tends to be very much ... a continuation of the public service culture, which doesn't really put much store on informing parliament or serving parliament. Like, when you're in the executive agencies, like [the Departments of] Finance or [Prime Minister and Cabinet], the dominant culture there is to serve the government of the day. And parliament is a problem area because you have parliamentary enquiries, you have questions to your Minister. And so, fending off parliament is a major task. It's never spoken of in that way but it is a major task and you try and always keep them at bay. And being able to help your Minister, present him or herself in the most positive way to parliament, is a very important job. But what has disappointed me here is, the only client that the Auditor-General has is parliament and our whole ethos should be about serving parliament, about informing parliament, about holding the executive to account. What you tend to find is that we're all career public servants. Many of us come here from the executive departments, Department of Finance or big line agencies, and we go back there. Our career ... can be a year in a major agency [and] another year in the Office. We come and go. That's all well and good. But what doesn't really change much is the mindset, so there's a tendency to, in fact, be putting these reports together in a way that's not greatly different than if you were reporting to the government. So, rather than being fully oriented towards saying, should parliament know this, regardless of how awkward this will make our relationship with the agency we're auditing, the tendency seems to be, well, we don't really want to upset our agency that much. We

don't really want a difficult relationship with that agency. How can we accommodate all of that so we don't rattle the feathers too much (Interview with ANAO #4, 14 January 2004)?

It is important to stress, however, that during the participant/observation stage of this study, I did not witness anything to support the field auditor's claims. For example, one of the activities I observed towards the end of the audit was an internal ANAO meeting between ANAO executives and field auditors at which preliminary audit findings were discussed. A key factor that governed the selection of points to be included in the draft report was not the political sensitivity of the findings (although this did influence the language of the report) but rather whether there was defensible evidence to support those findings.

From a value-adding perspective, however, auditor independence may be an obstacle to effective auditor/auditee relations, at least from an auditee's point of view. Consider the following opinion, expressed by an Agency line manager.

Yes, they could work very closely with us to understand [the Agency]. And that's where we run into the independence problem. ... They could have a dedicated team. ... So that team, you know, would stay there for a few years ... so that they could have a core body of knowledge. Whereas now they sort of walk into every audit with a different person who doesn't know nothing. ... So I think, even with that independence barrier ... they could go a lot further than they are in terms of working with us (Interview with Auditee #8, 16 March 2004).

Auditee #8's comments are reminiscent of findings in Hawkes and Adams' (1995, p. 35) internal audit study that auditee staff want a cooperative and participative approach from their auditors rather than an independent appraisal function.

A third factor that presents an obstacle to auditor independence is the capacity of auditors-general to influence the selection and reporting of audits. Section 8(4) of the *Auditor-*

*General Act 1997* gives auditors-general discretion over what audits to conduct, when to conduct them and how to report them. While this applies to both financial and performance audits, the section has particular significance for performance audit because of the level of discretion that is exercised over every aspect of their delivery. This is because annual financial statement audits are obligatory under enabling legislation such as the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997* whereas performance audits are not. The personality of the Auditor-General has a direct bearing on the choices that are made as regards the scheduling and reporting of performance audits and this, in turn, makes the Auditor-General vulnerable to criticism for being either too cooperative or too confrontational, either of which arguably could be interpreted as an impairment of independence. Confrontational auditors-general, like John Taylor, cause executive governments to react in ways that reveal the tenuous nature of state audit independence, while cooperative auditors-general, like Pat Barrett, run the risk of being seen to be too cosy with auditees. During my conversations with the study's participants, I recorded a number of comments associated with the impact of the Auditor-General's personality and style on his relations with executive government. Consider, for example, the following extract from my notes of interview, recorded during a conversation with an ANAO executive.

I asked about the relationship between the Office and executive government. [ANAO #9] considered possible indicators, said he didn't think that there are clear examples of positive or negative indicators. And that doesn't mean to say that Government doesn't think the Office is doing a good job. No government likes to have its programs criticised but where the Office criticises a program, [ANAO #9] hasn't seen any negative reactions from executive government. A good example is Defence, which the Office criticises all the time. Thinks Exec Govt is appreciative of the role that the ANAO plays: they are interested in what the ANAO is doing,

accepts what it's doing. Lucky to have someone like Pat Barrett because an auditor-general is not the sort of appointment that they can change if they don't like him. Don't want to appoint someone who goes feral on them. Haven't been so lucky in the past. Some States have had problems with AGs who see themselves as crusaders. Difficult to get someone who is independent and yet doesn't go feral (Researcher's notes of interview with ANAO #9, 28 April 2004).

The notion of the feral, or rogue, auditor-general was also raised by a consultant, whose views are interesting in that they highlight, firstly, the vulnerability of state audit to executive retribution and, secondly, the complexity of choice associated with the Auditor-General's discretion under the Act.

The Auditor-General treads a fine line. I mean, you can't be a rogue, nasty Auditor-General because the system will come down on you like a tonne of bricks. And I think that's been one of Pat's great sort of skills and contributions: he's been able to tread that line [between public accountability and public management improvement] quite nicely so, you know, he's making some good statements, good reports and so forth but not too extreme (Interview with Consultant #3, 15 April 2004).

Yet, a long-standing member of the ANAO's performance audit staff expressed a critical view of the (then) current state of leadership within the ANAO and the culture that it inspired.

But to my mind, it's the calibre of [the ANAO executive staff]. It's they who, as a group, create and nurture and give substance to the culture of the place, and it is they who as a group, I see, who don't very actively promote a culture of independence from the government and the executive and fulsome reporting to parliament, regardless of the problems that that will give rise to when one is dealing with the agencies. So the whole performance auditing process becomes something of a charade where comfortable relations with the auditee, the agency, are the order of the day (Interview with ANAO #4, 14 January 2004).

When asked whether the Auditor-General was independent, another consultant replied:

Yes but at great cost to him ... I feel for the Office. Because they do, you know, they do their best. But they're in an invidious position and I think that's how it has to be (Interview with Consultant #5, 21 April 2004).

The fourth, and final, obstacle to auditor independence to be discussed in this section relates to the notion of resource independence. Chapter 5 described how a combination of factors bound up with the ANAO's lack of resource independence from executive government created an ongoing funding crisis for state audit throughout the 1980s and early 1990s. Since 1997, however, when amendments to the *Public Accounts and Audit Committee Act 1951* finally gave the PAC a right of scrutiny over the ANAO's affairs, its resource independence has ostensibly improved. For one of the PAC members who took part in this study, the PAC's role in this regard is a powerful mechanism for ensuring the ANAO is adequately resourced.

Another of the roles that we got [from the 1997 legislative amendments] with respect to audit was the fact that we have responsibility over their budget. And every year on Budget Day, I stand up - one of the last speeches in the House before we sit down for dinner, before the Budget Speech by the Treasurer - and tell the House whether or not we think the draft Budget Estimates for the ANAO will allow them to do their job as we see their job. I believe, were I ever to stand up and say Finance is screwing Audit, that that would be headlines in the newspapers tomorrow. So no government would risk that. That's my view (Interview with PAC#1, 3 June 2004).

An ANAO executive was similarly confident in the Committee's powers to influence executive government.

Researcher: But has it, in effect, guaranteed that the Office has got the resources and the independence that it needs?

ANAO #14: Well certainly, I think, a pretty good balance. Because everyone accepts, I believe, that it is the government of the day that introduces the budget and is accountable at the end of the day for the budget it introduces. But recognising that, it gives the [PAC] the opportunity to say yes or no to the Office's budget. And, it

doesn't happen with anyone else and yes, quite frankly, if the Chairman of the [PAC] was to stand up and say, "I think the resources for the Office are insufficient", I think the parliament would take notice of that, and the government as well, of course. So I think it is a very powerful measure and, as I say, I think it's a pretty good compromise between the accepted notion of the government's right to introduce the budget that it's accountable for but at the same time, to recognise the special status of the Office (Interview with ANAO #14, 5 May 2004).

Yet, Chapter 5 revealed (see also Wanna *et al*, 2001, p 281) that the PAC's powers provide only limited assurance that the ANAO will receive the funds it needs to fulfil its responsibilities. Auditor-General Barrett's plea for resources (see Lewis, 2005, p. 1) noted in the media shortly before his retirement and a more recent complaint by Auditor-General McPhee ("Auditor-General bemoans Govt cutbacks", ABC News, 28 May 2008) bear witness to the ANAO's continuing vulnerability in this regard. Nevertheless, while it is recognised that a lack of resources could have negative consequences for auditor independence and, indeed, technical competence, I generally avoided direct questions about resources, preferring instead for resource issues, if perceived to be a problem, to emerge of their own accord during my conversations with the study's participants. It is interesting that, in fact, no auditor-participant identified resourcing specifically as an issue. Towards the end of the fieldwork stage of the audit, however, it became clear that the ANAO was experiencing some kind of budgetary pressure, the effect of which on the observed audit was a halving of the size of the audit team. This prompted me to pose the following question to one of the two remaining team members.

Researcher: Has that caused any dramas for you and [the other team member] - having lost two people off the team? Has it been a bit stressful?

ANAO #7: Oh yeah, a big stress. I mean, it's all under control now but certainly the last, probably, four to five weeks I've worked most weekends at home, getting issues papers done. And especially when there's budgetary constraints on us at the moment for the audit. We had a big lecture last Friday at our forum that we have to tighten



belts, so there's a big budget pressure as well. So, you want the audit to come in on or below budget, you don't want it to go over (Interview with ANAO #7, 25 March 2004).

I also asked an ANAO executive about the adequacy of the resources for performance audit. He responded as follows.

Yeah, well, it's a difficult one. I mean, I guess strategically the Office has taken the approach that it would live within the government's budgetary parameters - you know, where the government was broadly heading - unless we found that there was a total mismatch in resources. I think it's only in recent times that we're beginning to find that the revised pressures on the auditing profession as a whole to pick up the game on financial statements, and with things like ... the rental increases on Centenary House which are driving us bananas, that we're actually coming to a point in time where our cash is becoming a bit tight. Our budget's become a bit tight. And, you know, we'll see that if the government doesn't release the pressure on funding salary increases and is not forthcoming - I'm not saying the government hasn't been forthcoming because we haven't actually put this to them yet but - if it's not forthcoming on funding increases in all the costs that are due to changes in expectations out there, then we could find ourselves in a bit of strife. So, things are tight at the moment but they're not a disaster (Interview with ANAO #11, 18 March 2004).

### **6.3.3 Alternative conceptions of independence**

Earlier in this chapter it was argued that auditor independence is normally construed as the auditor's freedom, in mind and appearance, to make and report audit judgements objectively, free from intrusion and retribution by vested interests. The extracts of interview quoted earlier in this chapter indicate that many participants subscribe to this conventional notion of independence. Nonetheless, the study's empirical evidence suggests that there are differing perceptions of independence among its stakeholder-participants, a finding that is consistent with Hopkins (1997, p. 122), whose internal audit study found evidence of a fundamentally different perception of independence

(objectivity) possessed by auditor and auditee. In the present study, the auditee-participants tended to identify the notion of independence with the auditors' willingness to report both positive and negative findings. That is, they equated independence with fairness.

Yeah, I mean, we're a government organisation and we should be accountable and transparent and everything so that all the people outside in the world who are paying for us to be here should know that their money's being spent properly, that the things that we were set up to do are getting done properly. I have no problem with that at all. I do have a problem with [the ANAO] not painting the full picture, and I think that the Office has some form of response that says they have to do what the parliamentarians ask but I think they have some form of responsibility for painting a full picture. They are supposed to be impartial as public servants, and part of impartiality to me would be, yes, we will dig the dirt on the thing that you are looking at but here's also the positive side of it as well. I think they should do both (Interview with Auditee #4, 27 January 2004).

Auditee #4 was particularly concerned about the impartiality of the interview process. In a conversation about the audit team's interview skills, her response was:

The boss of this audit - there's an EL2, an EL1 and a graduate that they've got doing their paperwork and they're not asking questions at all, so there's only two asking questions. The EL2 is pretty good. When she's negative, she says, you know, "just like an audit officer, I'm going to ask you a really negative question", you know, she puts it in a good context and, as a general rule, she has not been particularly negative. She's been asking impartial-type questions ... she has pretty much written down most things that have been said, both positive and negative, but tends to always write the negative and not always write the positive. The other fellow, the EL1, has been never positive in his questioning. He's been neutral some of the time and extremely negative and aggressive other times (Interview with Auditee #4, 27 January 2004).

Further, the idea that ANAO staff are interested only in negative findings stems from the view, expressed by an internal auditor, that "with the ANAO, I mean, no matter how much they deny it, they're always looking for a headline" (Interview with Auditee #9, 8

March 2004), an idea that I consider further in Chapter 7. One of the consultants expressed sympathy for the Agency's position.

You know, it's the old 'we want to be understood'. ... You can still screw them, you can still point out all the things that they're doing wrong but, also, balance it with what they've been trying to do, the efforts they've made ... the issue of just knowing that your point of view has been taken into account. Quite often for example, the auditees get really annoyed if the auditors appear to have closed minds, right? They know perfectly well that a lot of what they have to say might not finally get into the report but they want to get a sense that at least it's been listened to (Interview with Consultant #1, 24 February 2004).

Meanwhile, for an internal auditor, it was the ANAO's possible unwillingness to allow the Agency to respond to issues papers or to take its responses into account that was a particular cause for concern.

Auditee #6: Well they do have to be independent because their paper has to be tabled in parliament so ...

Researcher: And is the tabling in Parliament of concern for you?

Auditee #6: No, [it's] part of the process. What would be a concern is if, with their initial paper that comes across in a week or two, we don't get the right opportunity to respond. Subsequent to that if we do respond, that they don't take our feedback constructively (Interview with Auditee #6, 3 March 2004).

What independence means to the ANAO, however, is suggested in the following comments, expressed by an ANAO executive.

You've also got an agency [like the Agency] where they are very much in the public eye and they're very aware of that ... [but] performance audit, by its very nature, is critical. So, unless you're going to say [the Agency] is wonderful, you're going to disappoint [the Agency]. And that is not going to fit with the public image that they want to project. That disappointment causes issues for us to get through because we have a completely different requirement. We're not answerable for whether or not

[the Agency] is disappointed with how they're publicly portrayed. What we're answerable for is, have we objectively reviewed what they've done, transparently reported it, and recommended how it should change to our customer, the parliament, who wants to know and wants to be able to get behind the bureaucratic wall and see what's happened. A necessary tension (Interview with ANAO #10, 17 March 2004).

Hopkins (1997, pp. 121-2) found that auditors link the notion of independence with the organisational attribute of providing service, whereas auditees link it with the personal attribute of integrity. With ANAO #10 conceptualising independence within the context of providing service to the parliament and Auditee #4 with the personal attribute of fairness, there appears to be some support here for Hopkins' findings. Yet, the notion of fairness has organisational level implications, as well. According to another ANAO executive, for example, and consistent with the historical record explored in Chapter 5, being seen to be unfair can have unfortunate consequences for auditors-general. Consider the following response, offered during a conversation about the language of audit reports.

So I think at some stage we've got to come to grips with how we express audits. At the moment the push is for non-adversarial language. Taylor was more in your face, he used to say if you didn't do it right, you did it poorly, you didn't do what you were supposed to do, so it was more in your face. And he got the backs up of the bureaucracy, which said, you know, that he was unfair, wasn't right, auditors-general shouldn't be saying these sorts of things. So there was a backlash against that (Interview with ANAO #8, 8 March 2004).

For a PAC member, however, being independent was not about balance or impartiality or fulsome reporting but, rather, about being apolitical. Consider the following extract from my interview with PAC #2. The parliamentarian's reference to Executive "misuse" is particularly revealing, as is the narrow interpretation of the audit role.

My impression is that they generally do a good job and that they, generally, are apolitical and very proper in their dealings and as long as that continues, I won't try and misuse them in a political sort of a way. I think that it's very important to have

an independent Auditor-General and, in the same way that I would expect them to be absolutely proper when I'm in opposition, I'd expect them to be absolutely proper when we're in government. I think that some auditors-general, or some State auditors, have played a poor role in politicising their jobs and I think that that undermines the willingness of government departments to take advice from them and it lessens the impact that they have in the area of their primary responsibility which is making sure that money is spent properly for the purposes for which it was appropriated (Interview with PAC #2, 22 June 2004).

In summary, the empirical evidence suggests that the study's participants were aware of the notion of auditor independence and appreciated its significance for state audit. Indeed, the auditor-participants, in particular, seemed strongly committed to the notion. Yet, the evidence also suggests that there are problems for auditor independence in terms of access to evidence, personal independence and resourcing constraints, raising doubts about the effective strength of the Auditor-General's statutory rights and protections. Further, there appear to be differences among stakeholders as to the meanings they ascribe to the term *auditor independence* and, consequentially, how they expect state auditors to behave.

#### **6.4 Reflections on the rationalised myth of technical competence**

The rationalised myth of auditor independence is commonly regarded as the cornerstone of auditing<sup>98</sup>, yet arguably of equal importance is the myth of technical competence. In the Australian private sector, where the accounting profession is the predominant driver of audit policy and practice, technical competence is bound up with the exercise of reasonable care and diligence in the conduct of audits, the maintenance of professional knowledge and skill in accordance with Section 100 of the Accounting Professional and Ethical Statements of CPA Australia (2008, pp. 1134-9) and compliance with the auditing

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<sup>98</sup> See, for example, the media release on auditor independence surveillance, issued on 30 September 2004 by the Australian Securities and Investments Commission (2004, p. 1).

standards of a statutory body known as the Auditing and Assurance Standards Board (AuASB). Similarly, for ANAO staff, technical competence is about acting with due care and diligence in accordance with the ANAO's (2004a, p. 6) Guide to Conduct and compliance with the Auditor-General's technical standards, as gazetted under Section 24 of the *Auditor-General Act 1997*<sup>99</sup>. These cover, among other things, quality assurance and documentation, the application of audit concepts such as risk and materiality, acceptable methods of audit planning and evidence-gathering and the proper communication of audit findings.

With audit practice involving so much subjective judgement, however, ethical pronouncements and auditing standards alone cannot ensure that auditors are competent and seen to be competent in meeting their objectives. Rather, technical competence depends, to a significant extent, on the auditor's generic abilities and intuitions. This is the case, even when statutory obligations make audit objectives relatively clear cut, as they do for financial statement audits. For performance audit, however, every aspect of every audit, from choosing the subject matter, to refining the audit objectives and scope, to setting the assessment criteria and audit methodology, to gathering evidence and determining the audit outcomes, is unique. This means that performance audit places even higher demands on auditor judgement than its financial audit counterpart. The comparative subjectivity of performance audit is highlighted in the following extract from a conversation with an ANAO executive.

What happens with a financial statement audit, with all due respect to [the financial statement auditors], is that every year they basically run the same standards. So, there are two differences. One is that there's consistency from year to year in the

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<sup>99</sup> The latest version of the ANAO Auditing Standards (2005) in fact indicates that they incorporate the Auditing and Assurance Standards that are generally applicable to the accounting profession.

methodology and the standards and the second key thing is that you get consistency in the [agency] personnel [that you're dealing with]. So you have your [Chief Financial Officer], or even where there's a change of [Chief Financial Officer], you have your senior finance people who are all within that single profession [of accounting]. So everyone understands [what's expected of them]. ... For performance audits you've actually got to do the work for every audit. And for example, in my group we're very strong on those mind maps which start off from your basic objective and work right through to the miniscule question. And if you reverse the order then you will see, by answering those questions, you've proved your hypotheses and come up with an overall opinion. But you have to spend a lot of time up-front, going through the methodology and going through the whole mindset for the audit. How you're going to prove it, what questions you're going to ask, what methodology you're going to run. So you've got to take people through that because a lot of it may be quantitative but a lot of the decision-making is also qualitative (Interview with ANAO #8, 8 March 2004)<sup>100</sup>.

According to Mautz and Sharaf (1961, p. 111), the exercise of audit judgement "is never free from unfortunate consequences". While this is arguably an exaggeration, the history of ANAO performance audit, analysed in Chapter 5, reveals that the ANAO has suffered a series of "unfortunate consequences" over the years as a result of its performance audit judgements, including external attacks on its competence, executive-imposed resource constraints, and intra-organisational tension and strife. Further, its ability to attract and retain suitably qualified staff for its performance audit work has long been problematic. Indeed, according to one of the study's consultant-participants, and a former ANAO employee:

[t]he skills issue was a very real one from the beginning. It became something which would remain an issue right through to the early 90s, which was, in the main, that the people who had been recruited to do financial audits [and] compliance audits didn't have the analytical skills to do the wider, more conceptual kind of work that you

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<sup>100</sup> ANAO #8's comments about the challenging nature of performance audit work compared with financial statement auditing is consistent with views reported in Radcliffe (1999, p. 347).

needed, and the report-writing skills for the bigger jobs. So skills issues were real (Interview with Consultant #4, 15 April 2004).

In contrast to Chapter 5, which takes an historical and institutional-level perspective on performance audit, my intention in this present chapter is to examine contemporary performance audit at the level of micro-practice, from the standpoint of the individual stakeholder. Consistent with this intention, this section focuses primarily on the views of the study's participants, expressed during my conversations with them, which relate to the notion of technical competence. These are organised around two key themes: the skills and knowledge required for performance audit, referred to below as the performance auditor's toolkit, and the challenges for the ANAO in providing a quality and timely performance audit product.

#### **6.4.1 The performance auditor's toolkit**

While the financial audit task is by no means an easy one, it is arguably less ambiguous and difficult to achieve than the performance audit task because the body of knowledge and skills required to undertake financial audits are relatively clear and non-contentious, as are the criteria against which financial statements are audited. Firstly, financial auditors attest to the reasonableness of information contained in financial statements that are prepared in accordance with mandated accounting standards, using data that is gathered, managed and communicated through formal systems of internal control. There is limited opportunity, therefore, for disputation between auditor and auditee about the treatment, presentation and disclosure of financial information. Secondly, financial audits are conducted in accordance with mandated auditing standards which include both general and specific standards covering every aspect of the financial audit task. Among other things, these clarify the scope and limits of the audit task and the respective responsibilities of auditor and auditee. Thirdly, financial statements are audited by



persons whose educational qualifications are essentially the same as those of the financial statement preparers, with both auditor and auditee typically belonging to a recognised professional accounting body, such as CPA Australia. These factors facilitate communication and understanding between auditor and auditee. Fourth, and finally, financial statement audits are conducted annually, thus enabling auditors to develop a sound understanding of the auditee and its operations over an extended period and helping auditors to establish long-term relationships with the auditee at the level of micro practice. Together, these four factors lend credibility to the financial auditor as a member of a recognised profession undertaking a credible task using credible tools and techniques.

For performance auditors, however, there is no equivalent set of consistent, universally-applicable criteria against which performance can be assessed, no clearly-defined body of knowledge that distinguishes performance audit from other professions, no tertiary-level courses that qualify individuals specifically to work as performance auditors<sup>101</sup>, and no professional body to which performance auditors must belong in order to practice their occupation<sup>102</sup>. For one ANAO executive, this lack of a unique, professional identity for performance audit was a major concern.

And I still think it's a major difference between the profession of performance auditing and financial statement auditing, that there is no one auditing profession. There is financial statement audit, of course, and financial statement auditors have the Societies, they have the university courses, they have the Professional Year, they have a unity about them. Performance auditors don't. They come from all walks of

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<sup>101</sup> The one known exception is a Graduate Certificate in Performance Audit and Evaluation, offered by the University of Canberra. However, the possession of such a certificate is not a prerequisite for appointment as a performance auditor, even for the Office which helped to design the program.

<sup>102</sup> This is so despite attempts by the accounting profession to capture performance audit through, for example, the promulgation of performance audit standards, and the existence of an international body, the Internal Auditors Association, which includes performance audit expressly within its field of interest.

life and there is no such thing yet as performance auditing, in reality, a profession. Certainly Canberra Uni is doing well with that course but you need to translate it into a professional body that sets the standards. Because, at the moment, we're piggy-backing off the financial statements' [auditing standards]. I know AUS 808 and 806<sup>103</sup> are there but if you read them, they're not really a strong guidance. And if you look at the financial statement auditors, they all live by their standards. ... It means that you're on the defensive about your methodology for every particular audit and it means you still haven't got this thing you can promote to even recruits and graduates about this profession of performance auditing. It's still reasonably unknown what that is (Interview with ANAO #8, 8 March 2004).

Because of this lack of professional identity and the corresponding absence of a recognised body of knowledge and skills, one of the central issues that I raised with participants was the knowledge and skills required for performance audit. The unanimous and, often only, response, regardless of the participant's affiliation, was generic skills and, in particular, analytical and communication skills. The following extracts, taken from interviews with two ANAO executives, a consultant and one of the Agency's line managers, exemplify this response.

Obviously there are skills around analytical ability, conceptual understanding, ability to write and communicate and an ability to manage relationships. Now, in terms of some of our staff, our successful people, they have a good understanding of the environment, they take an evidenced-based approach to their work, they have good analytical skills. So they're able to answer the so-what or what-if question and they're able to present that information in a readable sort of way (Interview with ANAO #13, 5 October 2005).

But the skill set required? Certainly analytical skills, I mean we quite frankly didn't care too much about the disciplines. ... Good analytical skills, good representational and communication skills and very good written skills because performance auditors have to write 80 pages or so in a report but financial auditors write a few paragraphs

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<sup>103</sup> AUS 806 (Performance Auditing) and AUS 808 (Planning Performance Audits) are auditing standards published jointly by CPA Australia and the Institute of Chartered Accountants in Australia.

plus a few management letters. So, the written skills and the ability to put a compelling case together are very important (Interview with ANAO #14, 5 May 2004).

I don't think there was a formula for the right kind of academic background that qualified somebody to come in and do performance audits. It tended to be that they needed to be analytical, so to have some background in systematic analysis and to be able to communicate well with people and in writing (Interview with Consultant #4, 15 April 2004).

Analytical skills, really, I mean [the auditors] have to be able to look at information that's provided and take in information that's provided through the various conversations and so on, and interpret it, I guess, as to how that might impact on our management within organisations (Interview with Auditee #2, 18 November 2003).

In addition, two ANAO field auditors noted a link between analytical skills and creativity.

[Analytical skill is] the creative bit [of the audit]. It raises questions in your mind: "I wonder why they've done that?" But there's also the putting of things together. Like, in doing the audit I've just been doing, this whole cupboard behind me is full of papers. Now, there are things buried in the bowels of those papers where I've been able to recognise a link between this and something I've read somewhere. Recognising a little phrase in the middle of all that has actually been the key to a whole issue. Now, I could have missed that so easily but just picking that up and asking questions about it was the key. Now I don't know what drives one to do that (Interview with ANAO #1, 25 November 2003).

I think what you need is creativity and adaptability. You need to be able to see something, and think through a way or a methodology that will be the most appropriate for that topic. You need to be able to conceptualise the scoping so that you can scope the audit in such a way that you answer the big questions but not making it so big that you can't actually test it (Interview with ANAO #5, 2 February 2004).

Along similar lines, another field auditor, describing his ideal audit team, specified a mix of people who think strategically and in detail. This is revealed in the following response.

The perfect audit team? Well, I think you need at least one real details person that can really ferret away on information; you have another more strategic person, I suppose, who should be at the front of, you know, sort of the audit manager but even second up, and apart from that they're just sort of focused people, good movers, they know what they're looking for, and can go and get it, they have good relationships with the audit team, they do ask decent questions in a very soft, positive way, and they can efficiently analyse and write up reports (Interview with ANAO #3, 9 December 2003).

Relationship, or "people", skills featured prominently among the necessary attributes for performance audit. There were, however, different ways of conceptualising people skills, depending on the affiliation of the participant. For the auditors, people skills were equated with the ability to interpret human behaviour, to manipulate others in the pursuit of audit evidence, and to deal with difficult people.

You need people who have good people skills. They can read the nuances of complex interactions and help you decipher what's driving people or what they're trying to do (Interview with ANAO #4, 14 January 2004).

I mean, I had a long running dispute with someone who kept on saying they had a strategic plan for something and it had been tabled in Parliament, apparently, and so I actually wrote and said where is it? And they wrote back and said we haven't done one, so I actually wrote in the issues papers that they'd misled Parliament. That got me a strategic plan very rapidly or, well, something that passed for a strategic plan. But they were trying to obscure what was going on because that was their way. In a way, I think they treated it as a game but in the end, it's about what approach can you use to get what you need out of people. ... It's a matter of getting people along with you (Interview with ANAO #1, 25 November 2003).

In terms of dealing with auditees, ANAO #1 also stressed the importance of personal attributes such as persistence and self-confidence.

You have to be able to handle a situation where, for a lot of the time, people will be telling you you're wrong and giving you negative feedback and you have to cope with situations where you deal with difficult people. I mean, I've had a 6-hour exit

interview for a 20-page discussion paper and people saying, “you’re stupid”, “you don’t know what you’re talking about”, “you’re only in the Office” and “get a real job”, as somebody told someone here the other day (Interview with ANAO #1, 25 November 2003).

A field auditor interviewed at the same time as ANAO #1, endorsed this view.

Where you ask a question which sounds to you like a good question but the auditee will pooh-pooh it as if you’re [*makes hand gesture denoting lunacy*], that’s when you know you must get an answer to that question. So every question that sounds to you like a good question, follow it through. You usually find that it’s best to stick to your own ideas, so you have to have some degree of faith, some courage in your own thinking of things through (Interview with ANAO #2, 25 November 2003).

For the auditee-participants, however, people skills had more to do with the auditors’ social and listening skills. For instance, while exploring ways of improving relations between the ANAO and the Agency, I asked a line manager if the ANAO should provide more information or training to auditee staff. The participant replied:

I’m sceptical of training. You can train people till the cows come home but whether they take up those skills is a different matter altogether. I would rather see that the auditors were recruited and trained with more people skills, rather than just the ability to ask questions and to analyse things. You know, give them some people skills. A lot of them are stick in the mud people. It’s the nature of what they’re doing (Interview with Auditee #4, 27 January 2004).

One of the Agency’s internal auditors also stressed the importance of being able to interact well with people.

People that I’ve known so far that are really good auditors are also really good “people” people (Interview with Auditee #5, 24 February 2004).

The contrast between good and poor people skills, from an auditee’s point of view, can be seen in the following comments, made by another internal auditor.

We've had at least one person from the ANAO that we've made numerous complaints about ... just totally arrogant, refuses to listen, draws what I can only describe as incorrect conclusions, tries to get things, times and dates, set up that only suit him, you know, pretty bad actually. ... When I first [joined the Agency], the branch head that was looking after [the Agency] from a performance audit point of view was excellent. He had superb people skills. You could sit down and have a good chat with him. You could explain your side of the story [and] he would listen. He wasn't looking for headlines (Interview with Auditee #9, 8 March 2004).

One of the consultants, however, captured both audit and auditee perspectives when he described people skills as follows.

What I'm suggesting is that the ability to read other people, the ability to be intuitive, the ability to deal with them and interact with them so that the auditees have a sense that you are listening to them, that you're consulting with them, you're not always agreeing with them, but that you're consulting, and you're taking them with you in the process, I believe has become far more important, and it wasn't necessarily a skill that you looked for in the earlier days of auditing (Interview with Consultant #1, 24 February 2004).

While generic skills were universally identified as essential for performance audit, an ANAO field auditor also suggested evidence-gathering as a necessary skill for anyone involved in an investigative role, comments that recall the correspondence noted by Pollitt *et al* (1999, p. 108) between the craft of the performance auditor and that of the investigative journalist.

The sort of background that's most suitable for this sort of work is a background in the humanities, a background in investigative work, perhaps journalism, people that have a passion for finding things out, people who can write well, people who've got good interpersonal skills, all these sort of holistic sorts of things (Interview with ANAO #4, 14 January 2004).

This is consistent with the views expressed by ANAO #13, quoted earlier in this section, who claimed that the ANAO's "successful people" are those who take an evidence-based approach to their work. Similarly, another ANAO executive argued that:

[a]uditors by definition can't accept things without evidence. You need to make it confirmatory. You need to gather support from different sources (Interview with ANAO #11, 28 April 2004).

Further, another field auditor explained the importance of evidence-gathering, as follows.

If you've gone out there, you know what you're looking for, you've got findings and can substantiate with evidence, I actually think that's the most important bit because if you've got that, you've got an audit. It doesn't matter how well you write, if you can't substantiate your findings, well, you haven't got any findings, you don't really have an audit. So, the main thing is to get out there and know what you're looking for and find it and substantiate it with evidence, and after that, it's good if you can write it up and analyse it and structure it well (Interview with ANAO #3, 9 December 2003).

In addition, some auditor-participants stressed the superiority of hard data over opinion-based evidence, a view that is also consistent with the literature<sup>104</sup>.

In my own work, what I've found is the way to cut through [resistance to audit findings] is to focus the audit as much as possible on hard data which Management here can't argue about, and the agency accepts because it's hard, basically quantitative sort of data. When the audit reports are filled with the judgement and opinions of the audit team, it's much easier for the agency to knock them down and for Management here to acquiesce (Interview with ANAO #4, 14 January 2004).

Because what else can we look at, at the end of the day? We can talk to a whole range of people but the best thing is, their own hard data (Interview with ANAO #6, 10 March 2004).

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<sup>104</sup> For example, Radcliffe (1999, p. 352) reports one of his participants as stressing the importance of "numbers" over "generic opinion".

The strategic importance of defensible evidence can be inferred from the following remarks, made by one of the Agency's internal auditors about his own audit staff.

Anyway, so I get this draft report which has this stuff in it, which is totally untrue and I can demonstrate it, and I said to [the auditors] I didn't really expect to have auditors coming to my office and giving me hearsay evidence. I thought that was a little rich and they really ought to go away and do something about it (Interview with Auditee #9, 8 March 2004).

Thus, from my conversations with the study's auditors, auditees and consultants, I concluded that analytical, writing, interpersonal and investigation skills all form part of the performance auditor's toolkit. What is not so clear from the empirical evidence, however, is the subject-specific knowledge required for performance audit, analogous to the financial accounting knowledge required of financial auditors. The study's auditor-participants had mixed views in this regard. Some argued that the academic disciplines from which performance auditors are drawn are of little importance (see the views expressed by ANAO #14 and Consultant #1, quoted earlier in this section). For others, certain forms of subject knowledge were at least desirable, if not essential. For example, according to a field auditor:

[y]ou do need people who are comfortable with numbers and accounting systems, if you're trying to track down data about costs and whatever. But you [also] need people who understand about law because a lot of what we do is about agencies giving effect to the laws that they're set up to administer (Interview with ANAO #4, 14 January 2004).

Yet, the same participant also questioned what he perceived was prevailing ANAO practice in recruiting staff from accounting and related backgrounds.

Our management tends to get people who are maybe technically proficient in accountancy or business or something, or even economics. Most of those sorts of degrees are very mechanical sorts of things. People rarely write essays, rarely do



anything investigative, rarely do anything that's creative or imaginative, and don't need to do much in terms of interpersonal skills (Interview with ANAO #4, 14 January 2004).

Rather than accounting or legal knowledge, another field auditor believed that performance auditors should simply be:

interested in public administration in the abstract as it were - how does it work ... You can buy [technical skills] in, I mean, like statistical skills, IT skills, legal skills. ... At the end of the day, most of the hard questions, in all those spheres, are actually management ones not technical ones (Interview with ANAO #2, 25 November 2003).

Indeed, a number of auditor-participants commented that an interest in public administration, and especially in improving public administration, was what initially attracted them to their positions. Consider, for example, the following comments.

I must say, I'm attracted to the position because it's about holding the executive accountable, it's about identifying scope for improved public administration, it's about keeping Parliament better informed about how government is working, how the public service is working, so, it's got a lot of public good features about it which are quite prominent and easier to relate to than those that Parliament would hear from the mainstream Executive departments (Interview with ANAO #4, 14 January 2004).

At the start, I suppose that was the attraction there, that you were actually able, to use a cliché, to make a difference, to actually be part of some sort of a review or oversight body that did ensure that public administration was efficient, effective and economic (Interview with ANAO #5, 2 February 2004).

This focus on public administration raised the question of whether theories of public administration, and of management generally, might provide a common core of knowledge for performance auditors and thereby a source of audit criteria. In particular, I was keen to understand the auditors' notions of good management and to determine whether they assess programs against a set of generally accepted management principles

involving, for example, integrated and documented planning processes, organisational structures, communication systems, performance monitoring and risk management (that is to say, the technologies of NPM) in much the same way as financial auditors assess financial statements against generally accepted accounting principles. However, the empirical data revealed little evidence that auditors knowingly appeal to management theories and practices in developing audit criteria. Instead, one of the field auditors interpreted my question as a reference to contemporary management reporting tools, such as balanced scorecards, which he dismissed as fads.

I think there are generally accepted management fads, I would say, not principles. I think things like balanced scorecards and whatever's the latest trend, or triple line reporting, all these sorts of things, come and go. I don't think there's a set of principles. I think what happens is, you get a lot of consultants coming down here with new fads and it becomes all the rage and it appears at [the Institute of Public Administration in Australia] and it gets generally accepted by the agencies and then, two years later, along comes a new fad and everything changes (Interview with ANAO #7, 25 March 2004).

Consistent with this view, an ANAO executive argued that:

[a]s a performance auditor, you're not going to be recommending a fad but pulling back to commonsense (Researcher's notes of interview with ANAO #9, 28 April 2004).

The idea of a set of generic norms on which criteria are based was, in fact, rejected by most of the ANAO executives who took part in the study. Instead, they argued that audit criteria are always uniquely agency and program specific. In my opinion, however, their views, represented by the following extracts of interview, do imply the existence of an underlying set of common management principles, bound up with notions of strategic planning, risk assessment, benchmarking, measurement and monitoring.

It's not a set of management principles, it's a differing set of core criteria, depending on what you're looking at. Because if you're looking at, say, the management of a billion-dollar management contract, we're auditing the agency against what's in the contract, so are they complying, how are they monitoring it and managing it. You're looking at it against better practice in contract management. You're looking at it against compliance with Commonwealth legislation. So, what you have to do as part of the scoping of each performance audit is work out what are the areas of benchmarks or criteria or legislation or policy that you're auditing against, in terms of the particular performance audit that you're dealing with (Interview with ANAO #10, 17 March 2004).

For the most part, when we go and look at any agency, we're looking at whether the agency's achieving its objectives, so we're measuring the agency against what it said it was setting out to do, and its own measurement systems (Interview with ANAO #11, 18 March 2004).

So, there can be some procedural shortcomings in a sense, and you might acknowledge those and point to them but, at the end of the day, performance audit is really around are we achieving the programs and achieving the outcomes (Interview with ANAO #13, 5 October 2005).

Similarly, the following responses, which ostensibly point to a wide range of sources from which audit criteria may be developed, also imply the existence of a common, albeit fragmented, set of auditable principles.

The thing is, there is a vast range of sources about what should be, so there are risk standards, there are Better Practice Guides, there is overseas audits, there are academic works, there are models in departments, and they give you your "should bes". ... And I think almost wherever you look, somebody's come up with some standards, principles, guidelines, or you look in the agency itself and you say to them, what is that you said you were going to do, and did you do it? So you said you were going to have a strategic plan, where is it? You said you were going to have some guidelines ... do they cover the sorts of things guidelines for this function should cover (Interview with ANAO #1, 25 November 2003)?

[Generally accepted management principles] don't exist as defined. There are guides, behavioural guides, things from [the Department of Finance and

Administration] for example, procurement guidelines. Evidence of what people think is good governance. There's a body of knowledge, there are reference texts to look at how you observe something and whether something could be done in a better way. In [Better Practice Guides], where we've observed something that goes on in an organisation that people like, we do give credit to an organisation if what they're doing we think is better practice, it's what we hear people are saying is better practice (Researcher's notes of interview with ANAO #9, 28 April 2004).

Yeah, well, better practice principles are published by the ANAO, so there are a number of Better Practice Guides, in terms of various aspects of public administration and management. So, you could point to, for example, the performance indicator guidelines and performance measurement and so forth, so there are plenty of documents out there and many of those are produced by the ANAO (Interview with Consultant #2, 26 March 2004).

Aha! Generally accepted management principles. Look, I think there's a range of norms which the government expects programs will be managed by, I mean, clarity in objectives and performance information, feedback and evaluation (Interview with ANAO #14, 5 May 2004).

The above comments suggest that a conceptual understanding of public administration and an awareness of officially-sanctioned public management policies, often contained within the Better Practice Guides published by the ANAO itself, are an innate aspect of the performance auditor's toolkit. Yet, according to the participants themselves, it is generic skills and an evidence-based approach to their work that are the core characteristics of a competent auditor, that is, an auditor who can complete an audit that is "in time, [within] budget and to quality" (Interview with ANAO #8, 8 March 2004). Their views are broadly consistent with Radcliffe's (1999) findings about the non-standardised, socially constructed nature of performance audit and the importance of social awareness in selecting, planning and conducting audits, and in determining and communicating audit findings.

### **6.4.2 Technical challenges**

From my conversations with the study's participants, I distinguished four core issues that can be construed as challenges for technical competence. The first issue is bound up with problems of access to audit evidence, which can have negative consequences for both the efficiency and the effectiveness of the audit. Efficiency is affected when auditors experience unintended and unplanned for delays in gaining access to evidence, while effectiveness is impaired when they are unable to access the evidence they need to make informed assessments. However, access problems also represent obstacles for auditor independence and stakeholder responses to this issue have already been addressed in a previous section (see Section 6.3.2). Thus, while I acknowledge the serious challenge that access problems represent for technical competence and also, indeed, for audit usefulness, they are not considered further in this section. Instead, my analysis is focused on the other three issues identified in the data, namely, the escalating complexity of Commonwealth agencies, programs and administrative arrangements; the lack of timeliness of audit reports; and problems of recruitment, training and knowledge transfer.

There were many occasions during the in-depth interviews when participants referred, in some fashion or another, to the notion of complexity. For auditee-participants, for example, the complex and changing nature of their organisation was something that they felt ANAO performance auditors had difficulty in comprehending. This view is evident in the following selection of comments.

The thing that's very, very apparent now is the level of change that we deal with. It just keeps accelerating. And the message I gave several times yesterday [to the audit team], and I was keen for them to hear this, if you come back in a year, we will look totally different, and if we don't there's something wrong. You've just got to keep changing, changing; learning, learning. And the driver in all that is the efficiency

gain that you simply must put in place because your resource base just keeps shrinking (Interview with Auditee #1, 31 October 2003).

Yes, so I think that they seemed to have a relatively narrow and mechanistic view of [the notion of performance monitoring] and then they got irritated because it was complex and they got irritated because they couldn't get a handle on it, and then they got irritated because it seemed that we were a moving target. ... So I think they thought they were going to be able to come in to a relatively stable environment, which they would be able to comprehend relatively quickly, and then make observations on how we were going at the margin, when in fact what we're on about is a completely, a pretty fundamental re-consideration of what we're on about (Interview with Auditee #3, 12 December 2003).

Yes, [ANAO performance audits are] resource-intensive [for us] because, in a place as big as [the Agency], you can't just, kind of, let some poor auditors loose on the place. They need somebody, you know, that they can rely on to be able to tell them who does what, and who's responsible for this, and what the history of this is. It's hard enough when you work here to keep track of the changes in the organisation's structure (Interview with Auditee #5, 24 February 2004).

One of our biggest problems with the ANAO is that they don't understand how [the Agency] operates. So they see things through different glasses (Interview with Auditee #8, 16 March 2004).

And nowadays with performance audits, they quite often, when they come into an area like [the Agency], with complex programs, they sometimes draw some conclusions a bit too quickly without really getting into the substance of it, I think (Interview with Auditee #9, 8 March 2004).

Auditor-participants also nominated complexity as an issue, although, not surprisingly, not an insurmountable one. An ANAO executive, for example, saw the complexity of the Agency's matrix-style organisational structure simply as something that impacted negatively on resources.

The matrix model makes it difficult. It makes a performance auditor's life difficult. It increases the pressure on the teams and it absorbs more resources to look at certain

sorts of topics with [the Agency] because of the sheer amount of coverage you've got to find within the organisation and find your way through all the various bits that you need in order to put the puzzle together (Interview with ANAO #10, 17 March 2004).

Further, according to a field auditor, it was the increasing complexity of the APS as a whole that presented challenges for performance audit, challenges that she implied could be dealt with by the use of consultants.

Just the fact that the whole public service is much more complex [now]. You've got complex legal frameworks, you've got complicated legislation you have to go back to, you've got complicated ways of operating. The whole world is shifted. ... I think when I first came here, public administration was in fact simpler because in the time that I've been here ... you've got contract management and purchaser/provider [arrangements] and outsourcing and in-sourcing and all those sorts of things that have happened in my time. The outputs/outcomes framework has happened in my time here. All of that has led to much more complex operations in the Public Service, greater reliance on technology, e-business, the works. So that all of that makes a difference to auditing processes. ... I've used a lot of consultants in my work because they're not things that I know a lot about and you have to be very careful to have somebody who can back up what you've said with their expert knowledge because if you've said something negative to an auditee they'll argue to the death with you to get it changed, generally speaking (Interview with ANAO #1, 25 November 2003).

In fact, another field auditor claimed:

[w]e can basically do anything, it's just a matter of hiring expertise if we don't have it here, but it can affect the cost of it and that can be a constraint (Interview with ANAO #4, 14 January 2004).

For another ANAO executive, the notion of complexity was bound up with the increasing sophistication of performance audit itself, in conjunction with the increasingly complex delivery models with which auditors are required to deal.

Performance audits are now far more sophisticated, covering program delivery, and you're running that thin line between policy and outcomes in most of those large audits. ... You've got very complex delivery structures now. I mean the [National Health and Medical Research Council] was a complex structure; [the Agency] is a complex structure. So legally, while we always have the mandate, there's no question of that, I think, for auditors to get across the complexity of program delivery methods, is a real challenge (Interview with ANAO #8, 8 March 2004).

ANAO #8 went on to articulate other aspects of the contemporary public service environment that create challenges for both performance audit and public accountability.

Now you have trilogies where you have Commonwealth to Commonwealth arrangements involving also a third party deliverer, be it a state or private sector provider. The notion of whole of government or one-service shops is also having a marked impact because there's an expectation that there'll be a Commonwealth leader in terms of service delivery, so if you're doing Aboriginal welfare, it's not just accepted that it resides within [the Aboriginal and Torres Strait Islander Services program], you know, there's an expectation that [the program] will coordinate across the Commonwealth entities and manage on a broader scale. And that has all sorts of complexities, for an auditor, about who can you hold accountable (Interview with ANAO #8, 8 March 2004).

The notion of complexity was also raised by a consultant. Contrary to conventional notions of auditor independence, he felt that auditors should employ the assistance of auditee staff in obtaining audit evidence.

In fact, I'm actually saying it's actually harder [nowadays] for auditors to do their job. But these days, they go in and it is so complex, and is so difficult, how the hell can they be expected to understand how it operates? You know, they just can't. So I guess what I'm saying is, one of the ways you make up for that is through these personal skills, where in fact what you do is, through good personal skills, you actually use the auditees to help you find the answers, do you see what I'm getting at? (Researcher: Yes, I do). And because, if you don't do that, it's just too hard. You know, they're just so complex and so difficult and it's the biggest issue you'll find when you look at all the audit reports "they just didn't understand us". What I'm saying is, some of that is the classic, "they didn't understand me", but part of it is



true. Part of it, the auditors didn't understand because it is so hard to (Interview with Consultant #1, 24 February 2004).

Like the notion of complexity, the issue of timeliness was also raised by many participants. For example, when I asked a field auditor whether there were any surprises on joining the ANAO, the response was:

Probably the time frames. I mean, I understand the reasons why the reporting process takes so long but I guess I was expecting that it would be much more timely (Interview with ANAO #6, 10 March 2004).

Later in the interview, the auditor returned to this theme.

I think our reports just take too long, that's my opinion. By the time we report on the audit I'm doing now, it's a year since we spoke to people. A lot happens in a year, you know. It's about timeliness, I just don't think we're timely enough (Interview with ANAO #6, 10 March 2004).

An ANAO executive, who joined the ANAO during the fieldwork stage of the study, was similarly surprised at the time frames for performance audit.

When you break [the time taken to complete audits] down, you'll find that fieldwork is a rather minor component of that, it's measured in weeks rather than months. ... The final reporting process, [that is,] the preparation of reports and submissions, is a couple of months. The major element of time sits in the middle. ... There's an awful lot of time goes into that process (Interview with ANAO #13, 5 October 2005).

The time frames were criticised by one of the Agency's internal auditors as well.

For the life of me, I can't understand why a job takes nine to twelve months. To be honest, I just think that it's over-engineered, or, I don't know, people aren't working hard. I can't understand how an audit could possibly take that long. It's probably not going to be particularly timely by the time it's finished, that's got to be an issue (Interview with Auditee #7, 4 March 2004).

One factor that extends the time frames for ANAO performance audit compared with equivalent audits undertaken by internal auditors is the statutory clearance process imposed by Section 19 of the *Auditor-General Act 1997*. By virtue of this section, the Auditor-General is required to provide a copy of his proposed report to the auditee agency and, if the agency responds within 28 days, to consider their responses in preparing his final report. This statutory month-long delay is compounded by the ANAO's practice of providing auditees with issues papers on its preliminary findings, usually prior to the exit interview that occurs at the end of the fieldwork stage of the audit and certainly prior to the release of the Section 19 report. The scheduling of audit reports must therefore allow time for contentious issues to be debated back and forth. Despite their implications for timeliness, however, issues papers are seen as important for audit reliability.

It's quite good having an issues papers stage so that we iron out the wrinkles along the way. It's understood that we collect so much information, we're bound to make mistakes. And so to make sure that - there's never going to be complete agreement obviously but - that the errors of fact are corrected along the way, I think is quite important (Interview with ANAO #6, 10 March 2004).

According to some participants, it was not the writing of issues papers or the provision of Section 19 reports *per se* that created a serious problem for timeliness. Rather, in their opinion, it was the increasing involvement of senior agency officials and ministers in the clearance process. Consider, for example, the following comments by ANAO executives.

More and more senior people are getting involved, especially in draft reports. So while you may have a good, common understanding through the process, when the draft report actually hits the agency and goes to the Secretary or Deputy Secretary level, there's a renewed level of interest, albeit new because they have not been party to previous dealings. Now that causes a problem, of course, because, if people are defensive, they may not remember, for one reason or another, the conversations we've had in the past. So I've actually had exit interviews with agencies, quite

senior people, and those people have denied some conversations we've had [with them during] the exit interview phase (Interview with ANAO #8, 8 March 2004).

We now have a much higher involvement of ministers in clearing draft reports. They're quite active in all of the big agencies like Defence and Centrelink, and Finance has been one where the ministers have been particularly active. And that involvement has actually slowed the process a fair bit. And, at times, where an audit's got something to say, it can become quite difficult, even though the audits aren't necessarily about commenting on political decisions. And clearly, where we get into things like privatisations that haven't worked or asset sales that haven't worked and those privatisations and asset sales have been a feature of government policy, then, you know, in substance they do become politically important to them and to the ministers. So, yeah, if anything, I think that involvement's increased and certainly it's more common to have an agency head involved (Interview with ANAO #11, 18 March 2004).

The involvement of ministers and secretaries in the audit process was noted by field auditors, too.

There's a lot more ministerial interference, I guess you'd call it, and we were told last week that the issues papers for one audit had gone to the Minister, directly. And the Minister was making comments on them. So, and that's at the issues paper stage (Interview with ANAO #7, 25 March 2004)!

We had a range of issues papers. We went prepared to discuss issues at that exit interview. The message we got was, no, we're happy, everything's fine. .... A week later, we got a response and it was 50 pages long of issues that they didn't agree with. And to us it was just a complete shock because, you know, from the exit interview it went from everything's fine, to these papers, you know, that were 50 pages long. Oh, we don't agree, we don't agree, we don't agree, we don't agree, we don't agree, we don't agree. You've got this wrong, you've got this wrong, you've got this wrong, you've got this wrong (Interview with ANAO #6, 10 March 2004).

Of course, this purported intrusion of the executive and its agencies in the audit process also has implications for auditor independence. However, when I asked one of the

consultants whether auditees have a delaying effect on the reporting process, he responded:

Not that I've observed, in the sense that I think the Office itself has got a good, structured process now for doing performance audits. So, their process for providing issues papers to the auditee, and then providing a draft report, that's quite structured in that there's not a lot of scope for auditees to slow it down. But that's not to say they don't try. But I think the Office manages that process with the auditee about as well as you could (Interview with Consultant #3, 15 April 2004).

Rather, for this consultant, the ANAO's timeliness problems stemmed from its internal quality assurance and review processes, which he described, colourfully, as follows.

They've got a really weird process for developing their reports where you draft a report and it goes to, well, what would be the Senior Director, the section head person, and you can go through three or four iterations or five, or six, or ten, or fifteen iterations, getting a draft ready that suits that person. And then it goes to the Branch Head and you go through the same process and it can get kicked back down to the Senior Director and up and down and up and down. So when you get that person satisfied, it goes to the next level, you go through the same thing. And then you get the Deputy and the Auditor-General involved and you can go through the same thing so, you can hear horror stories of reports that have gone through hundreds of drafting iterations (Interview with Consultant #3, 15 April 2004).

The last challenge for technical competence to be discussed in this section revolves around staffing issues, and principally recruitment, training and knowledge transfer among the ANAO's performance audit practitioners. I noted earlier in this chapter that the skills issue has been a significant one for the ANAO since the inception of its performance audit mandate and the empirical evidence gathered from the study's in-depth interviews suggests this continues to be the case. For example, an ANAO executive remarked:

We're fairly demanding in what we require at each of the individual levels and I think you can see that when we're recruiting. It is difficult for us necessarily all the time to get what we want because the very people we want are invaluable to some of the policy development areas or a lot of the other analytical activities that are going on in the Commonwealth (Interview with ANAO #10, 17 March 2004).

Yet, consistent with issues raised in a previous section of this chapter, the ANAO's recruitment problems may arise, in part, because of the lack of a definitive set of knowledge and skills that define the profession of performance audit. Consider, for example, the following comments, expressed by an internal auditor and former ANAO officer, regarding the issue of graduate recruitment.

I know that they had more success at the graduate level with the financial statement auditors, just getting the people that had the right skills, than the performance auditors. But I think they're still kind of grappling with what do you look for in a performance auditor (Interview with Auditee #5, 24 February 2004).

For some ANAO staff, however, the recruitment of graduates, from whatever discipline, was problematic. Indeed, one field auditor was vehemently opposed to graduate recruitment.

I'd stop recruiting graduates and APS 3s ...I think that's just a waste of time. We spend an enormous time training them and they stay 2 years and piss off. We should be picking the people who have been in the public service or in operational sort of delivery jobs who have got real life experience and an analytical background (Interview with ANAO #5, 2 February 2004).

Interestingly, an ANAO executive was similarly of the view that graduate recruitment into performance audit was inappropriate.

With the young ones, the graduates, we're getting people in who are very competent and very highly academically motivated but do not necessarily make good [performance] auditors (Interview with ANAO #8, 8 March 2004).

However, the same participant was also critical of the length of tenure of some performance audit staff, particularly those recruited from the ANAO's financial audit division.

Researcher: So if you think about the bag of tools that performance auditors should have, where do personal skills and empathy and people relationships fit into that?

ANAO #8: Oh, very highly now.

Researcher: And do they, do they have those skills?

ANAO #8: Not all of them. We're getting more of it and funnily enough, where you didn't have it was because you have people who were graduates here back in the 70s. And people who have grown up knowing nothing other than auditing. And I think the risk with anyone in auditing too long is that you become academic and purist about it. So you, you say things like, the manager in the Redfern office should have made sure that they were acquitting for the \$2 payment, despite the fact that there was a riot outside and the place was being set on fire. Well OK, that might be the legislation and compliance but there's also commonsense and business acumen (Interview with ANAO #8, 8 March 2004).

Another factor that may influence recruitment is a belief, expressed by a number of the study's participants, that ANAO staff share a common, introverted personality style. This view is exemplified in the following comments from auditor and consultant-participants.

We've got a pack of introverts here, who are working diligently away on heavily analytical tasks (Interview with ANAO #10, 17 March 2004).

You know, auditors tend to be introverts, and I say that in the nicest way, I am as well, but they tend therefore to be able to spend time, going through quite minutia (Interview with Consultant #1, 24 February 2004).

Well if they're not introverts they're not going to fit in, are they? If the place is 90% introverts, then [new recruits] are not going to feel very comfortable in that sort of environment and the introverts aren't going to feel very comfortable with them, so it's a self-fulfilling sort of mechanism (Interview with Consultant #3, 15 April 2004).

According to an ANAO executive, the introverted personality style is both a strength and a weakness for performance audit.

The strength is that [introverts] are self-reliant, so that, when they get challenged or told they're idiots or, you know, whatever else, they reflect and reflect on that and they draw their strengths internally, I think, in making up their mind on being committed to whatever view that they're forming in the audit. They don't need to feel they need to win the popular vote in doing the task. So that can be a real strength as an auditor. ... [Yet], if the Office is going to create change, we need to have some strong [extrovert] coping skills because, yeah, you've got to be able to talk to people, you've got to be able to share ideas, you've got to convince them about your ideas (Interview with ANAO #11, 18 March 2004).

Nevertheless, another ANAO executive disputed the idea that performance auditors are necessarily introverted.

This is mainly associated with financial statement auditors because they really aren't into the interpersonal issues that performance auditors have to deal with. And the idea of introversion comes from the pejorative view that auditors are a bit anal. ... Perhaps people who are less outgoing are more attracted to audit work. Just thinking of the people in this Office, the performance audit areas, very few of them are of an introverted nature. It's an observation that I think is probably incorrect. I don't think it's particularly true and I don't think, in its true sense, it's particularly useful. I don't think they could do their job as well as they could if they were totally introverted (Researcher's notes of interview with ANAO #9, 28 April 2004).

In addition to its recruitment practices, the study's participants also expressed views about the ANAO's formal and informal mechanisms for sharing knowledge among performance audit staff. Opinions were mixed and, to a degree, conflicting, in this regard. For a field auditor, for example, the ANAO's formal training programs were adequate in some respects but lacking in others.

There's quite a lot of training on: this is how you set the objectives, the criteria, this is how you write the report [but] there's actually not much in between on, well, this

is how you go out there and do your fieldwork, talk to auditees, just gather evidence and assess it. How you go out there and find information, deal with the auditees, get the most out of interviews ..., I think there's probably considerable scope for training in that core area, and just how you make sure that you keep the focus in your audit, so you can look at the core things that you're meant to be looking at, rather than anything else that comes up within the audit (Interview with ANAO #3, 9 December 2003).

Further, an ANAO executive argued that the ANAO's approach to sharing information of generic interest was particularly of value.

Formal processes for information sharing tend to work best with generic information that everybody needs to know and the Office has tried quite hard in recent years to put in place mechanisms to do that for things like, how the Office is travelling against its budget, how it's travelling against its work program, what major things are changing in the policy environment or with the accounting standards that people need to know about. So we have quarterly updates that address that sort of thing (Interview with ANAO #10, 17 March 2003).

Indeed, another field auditor believed that the ANAO's generic training should be extended even further.

The sorts of training I'd like to see is about public policy, about the way Cabinet submissions get developed, about the ideas of public goods, about why we have a public service and why our public servants are doing some things and not other things, about our parliamentary system, about how democracies work, the sorts of things that people do in political science, a lot of these public policy issues (Interview with ANAO #4, 14 January 2004).

Yet, according to a third field auditor:

a lot of our training becomes so generic that the impact on the individual teams or the actual circumstances that you're working on is negligible (Interview with ANAO #5, 2 February 2004).

For a fourth field auditor, however, some skills were simply not amenable to training.



Well I mean, I think, for some of these skills, there's an element that it's inherent, some people can learn it and some people just can't. And I think there are people who have stayed here for years who have great difficulty with some of these auditing skills and I reckon one of the main skills that you somehow can't teach people is analytical skills. Because I don't know how you say to somebody: "But can't you see this means X?". And they say, they clearly can't. Now, how do you train somebody to think about things like that because didn't it start when they were 2 years old or before that, even? So, I think some of the other stuff you can actually teach people because you've got the formula for writing, you can go to courses where you can do role plays to be taught to deal with difficult people. But, if you can't analyse, then I think auditing is a very painful process for you (Interview with ANAO #1, 25 November 2003).

A fifth field auditor argued that the introverted personality style, referred to earlier in this section, was problematic for building informal networks for information-sharing and the transfer of knowledge among performance audit staff.

Yes, you know, even though the organisation has tried [to promote informal support mechanisms], the biggest issue here is, it's an organisation of extreme introverts. It's about personal preferences, I think, rather than anything else. I mean, I think a lot of it is, informal networks develop once you've been around for a while and start to know people but the organisation can't force those things. And I know that they're keen that we cut across the silos and we talk more often about the issues. And we have, you know, quite regular seminars to discuss various things. But it's not the type of organisation where, you know, you're going to find everybody at the tearoom talking about what happened last week. It's just not like that. People get in their offices and they put their heads down and never come out (Interview with ANAO #6, 10 March 2004).

Consistent with this view, an ANAO executive referred to communication problems within the ANAO.

Communication in the Office has always been one of the biggest challenges. Basically, auditors are introverts and they sit on their project and tend to work, either by themselves or with their limited team numbers, and teams here are generally two or three people. So the fieldwork's generally conducted out in the field, so they're

not in the office. Then, people tend to come back and write up the issues papers or the reports, so for that they like to have peace and quiet, so they tend to lock themselves up in their room. We've always struggled therefore with communication within and between branches on audit methodology. And we've had databases using Lotus Notes, we've had briefing sessions, we've tried various methodologies for doing that, and we'll continue to do that but I think it will continue to be a challenge (Interview with ANAO #8, 8 March 2004).

For another ANAO executive, however:

those who have the emotional wherewithal over time to build their contacts amongst their colleagues tend to do better because while the various subject matters can be really quite different, one from another, there are things that come out of it, or the knowledge that you gain from having been involved in different things, that can help another person. So, if you know the right people to ask sometimes, it really can help (Interview with ANAO #10, 17 March 2004).

In summary, the empirical evidence reveals a variety of perceived challenges to the technical competence of the ANAO's performance audit staff, including complex and difficult audit environments, timeliness concerns, skills shortages and internal communication problems. Nevertheless, while recognising its challenges, most auditor-participants revealed a sense of pride in their work and a belief in its value for public sector accountability and management improvement. A comment by an ANAO executive, which exemplifies this view, provides a fitting conclusion to this section.

You've probably detected through this discussion that I've a very positive view around the role of the Office and what it can achieve. I think those who have taken leadership roles in the Office over recent years have positioned the organisation very well. The people we have here are a very good group of people. It's interesting, as I have contact with others at an international level, as to how well the Office is regarded. It's seen as being a fairly leading organisation. It's one of the big leaders in the performance audit territory. But I don't take all those things lightly. There's a saying, two sayings in this office: you're only as good as your last job and you live in a glass house. And so we need to be on our toes. We need to be constantly

looking to improve what we do and, I think, the sort of things we can improve on in the way we do our audits, be it the length of them, the nature of the reports, how we communicate and the importance of doing things correctly! If we want to hold ourselves out, we need to make sure that we're not doing anything which exposes us to our own criticism (Interview with ANAO #13, 5 October 2005).

## **6.5 Reflections on the rationalised myth of audit usefulness**

In Chapter 1, I argue that audit usefulness is a credibility factor of interest to this study because it relates to the auditor's ability to provide a message that is both reliable and valuable to users. I also argue that the value of ANAO performance audit for its institutional stakeholders is bound up with its perceived relevance for public accountability and public management improvement. Perceptions of relevance can vary, however, even among auditors-general. For instance, prior to Pat Barrett's appointment as Auditor-General in 1995, Australia's auditors-general viewed their role largely from a traditional, public accountability perspective (see, for example, Auditor-General, 1994a, p. 3), their primary aim being to protect the parliament's interests (Australia, JCPA, 1989, p. v). Barrett, however, saw his role as about adding value to public administration, in line with Pollitt *et al*'s (1999, p. 106) management consultancy role.

With Barrett as Auditor-General for much of the period of this study, I was interested to explore how individual ANAO and auditee staff, consultants and parliamentarians conceptualise the role of ANAO performance audit, how they react to the notion of the ANAO as a mechanism for adding value to public administration, and whether they perceive this value-adding role as compatible with the Auditor-General's traditional responsibility of reporting to the parliament on matters of public accountability. In presenting the stakeholders' views in this regard, I am mindful of the findings of previous research in this area, noted earlier in this study, including Morin's (2001) study of performance audit effectiveness which found that the ability of Canada's state audit

agencies to influence government agencies may be limited in the absence of parliamentary debate on audit findings. I am also mindful of Herrbach's (2005; see also Jeppesen, 1998) argument that a value-adding mindset can create conflict for auditors between their social mandate and their role as service providers, and Radcliffe's (1999, p. 353) suggestion that in establishing recommendations for improvement, performance auditors are constantly mediating a line between auditing and management.

### **6.5.1 The discourse on adding value**

During the in-depth interviews, most auditor-participants referred, in some manner or another, to the notion of adding value, which they viewed from either a macro or micro-level perspective. An ANAO executive, for example, took a macro-level perspective on the ANAO's role.

When I came to this job, I had some expectation that the performance audits that we do would be of relevant topics - that is, important to the government but also important to the community - and that we'd do them in a way and at a level that is a value-add to the overall system. And I think that occurs (Interview with ANAO #13, 5 October 2005).

Meanwhile, a field auditor took a micro-level view, emphasising the assistance his team had given an agency in solving a specific management problem.

An audit I worked on, probably the first one I worked on, was the performance information audit, where we looked at what agencies put in their portfolio budget statements, their KPIs. And that was really a good audit because not only did we look at them, we also gave them advice on how to improve, took them the Finance Guidelines, took some Better Practice Guides from overseas. And we worked with a couple of agencies, especially the smaller ones - one was the Geographical Survey Organisation, which is a tiny organisation. They didn't have the resources to improve their KPIs so we helped them do it (Interview with ANAO #7, 25 March 2004).

Another field auditor referred to the satisfaction obtained in being able to convince auditees of the benefits of performance audit.

The thing I probably most like about it is that I've changed people who hated performance audit when you turned up on the doorstep into people who thought it was just great (Interview with ANAO #1, 25 November 2003).

Another aspect of its value, according to an ANAO executive, was to be found in the process of audit itself.

Most agencies feel that performance auditing is valuable and our surveys would indicate that the process of performance audit is probably as important as the reporting ...because, if you have a good relationship with them, most of them will take up the suggestions and recommendations pretty quickly (Interview with ANAO #8, 8 March 2004).

Meanwhile, a field auditor implied that the value of performance audit could be found even in the threat of audit, comments that are consistent with the anticipatory effects of audit identified in experimental settings by Churchill *et al* (1982) and Neidermeyer and Neidermeyer (2005).

In the scheme of things, we probably do so few programs at the end of the day. It's that sort of readiness that may assist in some ways, in saying, well, keep your records, have your performance information, think about these things, because if you are audited you'll need those things to support your story (Interview with ANAO #6, 10 March 2004).

Yet, according to one of her colleagues, convincing auditees themselves that performance audits add value can be problematic.

I think [ANAO performance audit] adds value if managements see that we can add value. ... I was trying to explain [to Agency staff] about the value-adding concept. I said: "Oh well, we try to add value and that's what we hope to achieve in this audit." And the comment back from the [Agency] person was: "Oh well, that's yet to be

seen.” You know, like, prove to me that you can add value, in other words. I mean, I thought that was very instructive and a symptom of the way they viewed the audit process (Interview with ANAO #5, 2 February 2004).

While the auditor-participants typically thought ANAO performance audits were valuable, albeit for different reasons, the study’s auditee-participants were less consistent in their views. For example, when asked whether he thought ANAO auditors bring a value-adding or ‘gotcher’ mentality to their audits, a line manager gave the following response.

Depends. I’ve seen both. You can generally sense it, during the course of the process, what sort of approach the auditor is likely to take. ... If the auditors, to be fair, have done their preliminary work and it’s clear to them that there are fundamental mistakes happening in the organisation, then they may be just a little bit more aggressive and probably a bit impatient because they can see that this is a government process that is flawed. And you can generally see that. There are other times where the auditors might be looking at it, and this is the sort of audit that I enjoy, where they’ve looked at the processes that are happening in the organisation and think, well, hang on, that’s reasonable. It’s probably not as effective as it should be, and maybe if they did these sorts of things that it may improve the efficiency of the organisation, and I see that as critical to an audit. There’s obviously a role in finding things that are wrong, and government would expect that. That’s the process our form of government has to determine if government organisations are acting as they should. But I also think there’s another role in looking at improving the efficiency of government (Auditee #1, 31 October 2003).

Further, asked if ANAO staff add value to his work, another line manager said:

Yes, they do. Yes. Because even through the process - and this has been, what, four months that this audit’s been going on - where they’ve hinted that they’d like to see things done, we’ve already been putting them into place. So that’s, like, a confidence boost to us to say, well, we are sort of going in the right direction. There are a couple of things that have fallen out of the audit that have made us think, well, we’re not going in the right direction here. We can change that now while we’re still

developing the processes that we need to do. So there's been some positives come out [of the audit], from my point of view (Auditee #6, 3 March 2004).

A third line manager, however, whose criticisms of the ANAO were considered earlier in this chapter, was more qualified in his assessment of audit value.

I do think these things have value. I'm not just being silly in saying that. I think they do have value. Any external review has value. ... A superficial external view isn't going to help anybody [but] an informed, knowledgeable, professional external view can always help (Interview with Auditee #3, 12 December 2003).

Meanwhile, a fourth line manager felt that the ANAO could do more to assist with individual management problems, independence considerations notwithstanding.

If we could work closely together so that we could scratch our heads together about the problems and then try and work them out, that would be a hell of a lot more powerful than us doing that internally (Interview with Auditee #8, 16 March 2003).

Then, of course, there were those auditee-participants who had only negative views about ANAO performance audit, driven by what they perceived as the motivations of the ANAO's ultimate stakeholder, the parliament.

They are there for Parliament, not for anybody else. It depends on what Parliament wants. If Parliament wants an up-front view of how [the Agency] is run on a particular thing, then, that's probably what they will do. Parliamentarians want to find dirt or mud so that they can sling it, so that's what the auditors do (Interview with Auditee #4, 27 January 2004).

One of the Agency's internal auditors had similar views about the parliament's interest in the process.

The ANAO sort of puts a view forward that they're helping public administration ... but at the end of the day, their customer is the parliament. Now if they go and do an audit, and they, say, spend \$300, \$400, \$500,000 on an audit, and there are no scalps in it, well they're not going to be happy (Interview with Auditee #7, 4 March 2004).

This arguably cynical view of the parliament's interest in ANAO reports is reflected, to a degree, in the following comments expressed by an ANAO executive.

Most agencies know that if we put out an audit which talks about improving your bureaucratic systems, the press and the parliament will take little interest. ... Put out an audit which criticises an agency's accuracy level of customer service or the quality of customer service and suddenly you have headlines and suddenly you have a great deal of interest in the parliament (Interview with ANAO #8, 8 March 2004).

The idea that the parliament is interested primarily in "headline" issues is reinforced by the following complaint by one of the two PAC members who contributed to this study.

Performance audit reports now tend to be fairly bland. Not always but generally speaking they tend to be rather bland and one needs to look carefully to find juicy bits to go to work on. And, if anything, it's all focused on risk analysis, risk management, risk control (Interview with PAC #1, 3 June 2004).

PAC #1's comments bring to mind concerns expressed by Schuele Walton and Brown (1990, pp. 3-4) about the compatibility of roles between the auditor and the legislator: the one concerned with "professional objectivity and independence", the other with "serving their constituents and getting re-elected". Schuele Walton and Brown argued, among other things, that the legislature's role in oversight is of little interest to individual legislators unless it brings credit from the public through press coverage, which in turn is likely to occur only if there are 'juicy bits'. For ANAO #8, the parliament's disinterest in the prosaic issues of public administration was a matter of some concern.

ANAO #8: I think a major impact for us has been the decline in parliamentary interest in audit reports. Apart from the [PAC], there aren't that many parliamentary inquiries into audit reports.

Researcher: In the 1980s, the House went hammer and tongs, didn't it?



ANAO #8: Oh, even up to '95 in Taylor's days, you know, [we] used to spend a couple of days a week in Parliament talking to parliamentarians. Now you spend a couple of days a month. It's really [that] there's a lack of interest in auditing by parliamentarians. Which is an interesting shift. And really, the value is to get them interested and to get them to pick up on audit reports and to influence the shift in public administration. I mean, if Parliament, through its estimates and through its committee inquiries, doesn't accept that you must have a good governance framework, if they don't recognise the importance of putting resources into document-keeping and into doing risk assessments, risk management ... if they don't concentrate on that and reflect back on it, then I think the agencies aren't going to have the incentive to do it (Interview with ANAO #8, 8 March 2004).

Yet, despite ANAO #8's concerns, a second PAC member remarked that, for members in opposition, ANAO performance audits could be a valuable source of information about the activities of the executive and its agencies.

Part of being in government, or wanting to be in government, means that you have to make decisions about how public money is best spent and performance audits give you really a very good grounding in what departments do right and what departments do wrong that you can apply in a whole lot of different areas of government and governance (Interview with PAC #2, 22 June 2004).

Indeed, consistent with PAC #2's view, an ANAO executive saw the value of ANAO performance audit as bound up with its ability to help the parliament "get behind the bureaucratic wall" (Interview with ANAO #10, 17 March 2004), a comment that was noted earlier in this chapter, while another ANAO executive stressed the importance performance audits as a source of information for the parliament, given changes in public sector governance.

Cross-portfolio audits [and] cross-agency audits have become far more common and that basically has been [because of] an underlying reading of Parliament's concerns ... In the absence of the strong central agency control of the past, with devolution and so forth, you know, the only way that the parliament now gets a view across the

[APS] in a number of areas is through the Office (Interview with ANAO #11, 18 March 2004).

Thus, in contrast to Barrett's claim that adding value to public administration is the ANAO's overarching aim, much of the study's empirical data suggests that the ANAO's responsibility to the parliament is still seen as paramount, a finding that is consistent with Radcliffe (1999) and Morin (2003). This view is evident in the comments of an ANAO executive, who remarked that, at the end of the day, the ANAO never loses sight of the interests of the parliament (Interview with ANAO #14, 5 May 2004). For me, this raised the question of whether the Auditor-General's responsibility to the parliament and his desire to add value to public administration are compatible with one another. That this may not be so can be identified in the following comments, made by one of the study's consultant-participants.

The Office is pulled in different directions because their prime client is the parliament. And the parliament really wants a certain amount of deterrence, you know. They want (a) to have information and (b) a sense that, everyone knows that the Office might descend on you, so make sure you're maintaining your standards. ... Whereas, for the agencies, the Office is aware that it's costing a lot and that in some agencies they're in there all the time. I mean, the Tax Office is always being audited. So, in one sense, they want to get across the message that we are adding value. Not that we're soft and nice and cuddly, but that we're adding value. That what we do is a positive contribution to the way you run your organisation (Interview with Consultant #1, 24 February 2004).

Indeed, a second consultant's comments suggest that this purported tension between performance audit objectives is a long-standing one.

Taylor himself was also wrestling with a fundamental issue about efficiency or performance audits which is the tension between public accountability and performance or management improvement objectives. I don't know whether that's any better resolved now (Interview with Consultant #4, 15 April 2004).

Similarly, an ANAO field auditor remarked on what he saw were the conflicting expectations of parliamentarians and auditee agencies.

We do operate in a parliamentary framework and our agenda is pretty much set by the JCPSA and the responses we get from agencies when we talk about the type of things we want to look at. You know, I think the expectations are quite different for each one of those key stakeholders. I think parliamentarians think we're going to just look at everything and find something one day and then, doesn't matter how many different things we look at, as long as we find something. Agencies think that we're going to have a more risk-based approach, which I think we do have, when we look at key areas of risk (Interview with ANAO #5, 2 February 2004).

Yet, none of the other auditor-participants identified conflicting expectations as problematic for the ANAO. Instead, an ANAO executive argued that:

[t]he customer being Parliament and adding value are not necessarily at odds because Parliament expects our audits to add some value too, so they expect that, over time, a large number of the audits will identify areas that can be improved (Interview with ANAO #10, 17 March 2004).

Further, another ANAO executive claimed that.

[o]ur main aim is really to add value to public administration but, within that, our real role is to report to the parliament on the efficiency and effectiveness of agencies. ... You know, the value to me is in conducting audits which evaluate the effectiveness of a program and its efficiency and reporting on those to Parliament (Interview with ANAO #8, 8 March 2004).

Consider, also, the following notes that I made during a conversation with a third ANAO executive.

I made a reference to Agency staff seeing performance audits as there to help them and whether there may be a conflict between reporting to Parliament and improvement in public administration. [ANAO #12] said there is no conflict in aims but conflict in the message. "We're not management consultants, we are auditors.

[It's] convenient for agency people to be making that excuse" (Researcher's notes of interview with ANAO #12, 25 May 2004).

One of the ANAO's field auditors was similarly clear that his role was to audit, not consult.

I see myself as an auditor not as a management consultant. Yeah, as an auditor. Our audits - there's a percentage towards compliance and a percentage towards performance improvement - so, while we do want to have a big component towards performance improvement, it is in the role of an auditor, and what you're doing against what you said you should be doing or what we think you should have been doing (Interview with ANAO #3, 9 December 2003).

Another field auditor was equally unequivocal in his views about the ANAO's responsibility to audit.

The only client that the Auditor-General has is Parliament and our whole ethos should be about serving Parliament, about informing Parliament, about holding the executive to account (Interview with ANAO #4, 14 January 2004).

For these auditor-participants, there is no conflict between the ANAO's dual objectives of public accountability and public management improvement because, firstly, they consider that serving the interests of the parliament is the ANAO's primary value proposition and, secondly, they see the aim of improving public administration as about promoting better practice across the APS as a whole rather than acting as management consultants to individual agencies and programs. When adding value to public administration is conceptualised in this way, it is arguably consistent with the ANAO's traditional role in the public accountability framework, especially given the multi-dimensional character of public accountability, discussed in Chapter 4.

Whatever their views on the value of ANAO performance audit, however, many participants spoke positively about the ANAO's Better Practice Guides, noted earlier in

this study, which they regarded as one of the ANAO's significant value propositions.

According to ANAO #13, for example:

[w]e see them as a particularly useful mechanism. You were asking before what are the things that have surprised me a little bit since I've been here and one of the surprises has just been the feedback I get from different agencies on how they value the Better Practice Guides. ... I was talking to some people from Attorney-General's in the last week or two, who say they use our Better Practice Guide on policy development as one of their major tools for developing new staff and guiding the way they go about their business (Interview with ANAO #13, 5 October 2005).

A PAC member also spoke positively about these guides.

They put out Better Practice Guides every year and they're an invaluable source for the public sector (Interview with PAC #1, 3 June 2004).

Different perspectives on the manner in which Better Practice Guides add value were also expressed, particularly by the consultants. For example, one consultant spoke of their educational value.

I like what I see the Office doing. What they do is, do their audit and then come to some conclusions so that people can take hold of the better practice. We've just helped them to do a Better Practice Guide on public sector governance. It's also saying to departments or organisations, look, this is what we expect and this could be the standard that we will be looking at in relation to you in the future. So it's a continuous improvement type thing. ... I've had people from other Offices in other agencies and in other jurisdictions say, we use those reports. I've had internal auditors say, we use those Better Practice Guides. So I guess they're OK (Interview with Consultant #5, 21 April 2004).

Meanwhile, another consultant perceived Better Practice Guides as a means of improving relationships between the ANAO and its auditees<sup>105</sup>.

If [the ANAO] had a criterion that said we're only going to do audits if we think we can produce a Better Practice Guide out the other end of it, then what's coming out the other end is actually a positive thing which is advice to public servants that's going to help them do their job better. ... It turns the product around to being a positive product rather than a negative product. ... It seems to me that there's some significant potential (a) in making sure the resources that they use in performance auditing are focused on stuff that really is helpful and (b), in terms of improving public administration, it changes the mindset of the product to a positive one from a negative one (Interview with Consultant #4, 15 April 2004).

Nevertheless, there were other participants who perceived Better Practice Guides as a potential impairment to auditor independence, reminiscent of concerns expressed in Gendron *et al* (2001), and, indeed, questioned the propriety of the ANAO's involvement in their publication. Their attitudes to these guides can be identified in the following comments. The first, by an ANAO executive, was offered during a conversation about the criteria used for assessing performance.

So what's happened is that this, this Office has been doing a lot of Better Practice Guides. And some ... auditors-general ...believe that that's not a function of an Office and, you know, they have some argument in that. Because quite often we do a Better Practice Guide and then we'll go and audit against the Better Practice Guide (Interview with ANAO #8, 8 March 2004).

The second comment, by a consultant, was offered during a discussion on the Auditor-General's mandate.

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<sup>105</sup> In fact, during the participant observation phase of the study, I observed a number of occasions when the audit team openly praised auditee staff for their efforts in a particular area and promised to consider it for inclusion in a Better Practice Guide, a promise that subsequently was honoured.

Oh, this is a really interesting issue and it goes back to my point about adding value, how they add value. You see, it's a struggle for the Office in one sense. I think they do go beyond process and do try and help. The problem is, and it's the same with their Better Practice Guides, if they help too far, they're now becoming part of the whole thing they're auditing, right, so if they're telling you do it that way, then they come back next time and that way has been a disaster, they can be held to blame in a sense (Interview with Consultant #1, 24 February 2004).

However, when I asked an ANAO executive whether the ANAO should produce Better Practice Guides, he replied more equivocally, as follows:

Well, I think that's a good question. I think the Office has done a wonderful job in balancing its hard objective role in writing reports to the parliament on programs with a softer, more helpful, constructive approach to issuing Better Practice Guides and I think it has done a good job. I think this has been a very good strategy. But, as you say, I think implicit in your question, should it be the role of someone else? Well, that's a good question (Interview with ANAO #14, 5 May 2004).

Further, another ANAO executive saw the potential for conflict with auditor independence as of little consequence.

Look, there's risk in all things in life [*laughter*], in fact, there's a risk of getting out of bed in the morning, in a sense! I think the way that I would view it is that we need to look at how we provide a value-add to the overall system. We develop incredible knowledge, expertise and understanding on topics. I think it's incumbent on us to share that for the benefit of the broader group.

The Auditor-General has a statutory right, under Divisions 2 and 3 of the *Auditor-General Act 1997*, to conduct performance audits of government agencies and other entities and, under Section 23, to provide advice and information, if it is in the Commonwealth's interests to do so. Arguably, both audit recommendations and Better Practice Guides fit within the spirit of Section 23. The legislation is silent, however, on the Auditor-General's purpose in conducting performance audits and providing advice. In other

words, there is no explicit reference in the Act to his role in the public accountability framework or public management improvement. There is also some ambiguity as to the intended recipients, or clients, of ANAO performance audits and their associated products. Under Division 2 of the Act, the parliament is clearly identified as the intended recipient of the Auditor-General's reports, along with the respective responsible ministers. Under other parts of the Act, however, the intended recipients can only be inferred from the context of the respective provisions. Given this legislative ambiguity on the purpose of ANAO performance audits and their associated products, and even, to a degree, on the intended recipients of those products, it is hardly surprising that the participants' responses about the value and usefulness of ANAO performance audit were inconsistent, particularly with respect to the ANAO's role in adding value to public administration.

## **6.6 Summary and conclusion**

The previous chapter (Chapter 5) demonstrated that the successful institutionalisation of ANAO performance audit and the achievement of its institutional credibility were made possible because of its association with the traditions of independent state audit and the emergence of NPM. Indeed, most of the hurdles that ANAO performance audit encountered in its struggles to achieve institutional credibility were arguably problems of auditor independence and technical competence, and of convincing stakeholders of the usefulness of the function in the absence of a culture of public sector reform. Nevertheless, by the mid-1990s, these problems were largely resolved, enabling ANAO performance audit to become institutionalised and taken for granted as a credible function of state audit, part of the fabric of Australia's modern public accountability framework.

Chapter 6 is similarly focused on the credibility of ANAO performance audit, assessed against the criteria of auditor independence, technical competence and audit usefulness,



although this time at the level of micro practice, based on the perceptions and actions of the study's stakeholder-participants. My analysis of their responses reveals a general respect for the principle of auditor independence, a common belief that a competent performance auditor is one possessed of analytical, people and communication skills, and a view that ANAO performance audit is useful, or at least potentially useful, for public accountability and performance improvement. Yet, my analysis also suggests that the conformance of ANAO performance audit with the norms and values of a credible audit function can be problematic, with all three of its credibility criteria exhibiting signs of impairment.

The conclusions that I draw from the findings reported in this chapter are threefold. The first is that the norms and values of financial audit (that is, auditor independence, technical competence and audit usefulness) are also applicable to performance audit and that it is reasonable, therefore, to use them to assess its credibility. Although my conversations with stakeholders were structured broadly around notions of independence, competence and usefulness, the study's participants were able to offer detailed, critical and sometimes surprising insights and perspectives of relevance to each concept. The second conclusion is that, although the idea of ANAO performance audit may generally be accepted by institutional stakeholders as the way things are and ought to be, there are deficiencies in its credibility at the level of micro practice that require attention. Indeed, the impairments of auditor independence, technical competence and audit usefulness that emerged as part of the empirical findings of this study suggest the existence of a gap between institutional understandings of ANAO performance audit credibility and its everyday experience in the field. For example, at the macro level, the enactment of the *Auditor-General Act 1997* is typically believed to have enhanced the independence of the Auditor-General and the ANAO, yet there are a range of factors at the micro level that

threaten auditor independence. These include: firstly, a lack of epistemic independence in the determination of audit criteria, a finding that is consistent with Power (1997) and Everett (2003); secondly, the potential for conflict arising from the ANAO's production of better practice guides, a finding that is consistent with Gendron *et al* (2007); thirdly, a lack of personal independence associated with the mobility of staff between the ANAO and its auditee agencies; and fourthly, an imbalance of power between the ANAO, on the one hand, and ministers and senior officials, on the other, with the latter apparently willing and able to engage in tactics that exert pressure on ANAO staff and, thereby, delay and subvert the audit process.

Another example to illustrate the existence of an expectation gap is linked to the criterion of technical competence. Over the years, the ANAO has amassed a wealth of knowledge and expertise in the conduct of performance audits and is recognised, worldwide, as a leader in the field. Nevertheless, the empirical findings of this study suggest that complex and difficult audit environments, timeliness concerns, skills shortages and internal communication problems are all factors that diminish stakeholder perceptions of the technical competence of the ANAO's performance audit function. My conclusion that, at the micro level, there are implementation difficulties still to be overcome is consistent with findings reported elsewhere in the literature (see, for example, Lapsley and Pong, 2000).

The empirical evidence suggests that achieving the criterion of audit usefulness can also present challenges for ANAO performance audit at the micro level, evidence for which is found in the conflicting expectations among the study's stakeholder-participants as to what an ANAO performance audit should deliver. For example, the auditee-participants expected ANAO staff to assist them in solving operational issues, effectively providing a

management consulting service, whereas the auditor-participants regarded their role in reporting to the parliament on public sector accountability and performance as their paramount responsibility. Yet, a PAC member was clearly disappointed with the lack of ‘juicy bits’ in Auditor-General Barrett’s performance audit reports, suggesting a preference among parliamentarians for high-profile “gotchers” with which to confront the executive and its agencies, rather than constructive suggestions for improving what, for politicians, may be mundane matters of administrative practice. I interpret these findings as indicators of role conflict between the ANAO’s public accountability and performance improvement objectives, consistent with findings reported in Morin (2001) and Sharma (2007) and/or symptomatic of a lack of understanding of the performance auditor’s role.

Notwithstanding the impairments to auditor independence, technical competence and audit usefulness reported in this chapter, however, its findings also highlight the complexity of the auditor-auditee relationship, which apparently is characterised by a confusion of emotions including fear, frustration, aggression, empathy, pride and respect. This leads to my third conclusion, which is that it would be premature to form a view about the credibility of ANAO performance audit without first taking into account the motivations that underpin the participants’ responses to the function and to one another. In other words, it is important to consider the “judge bias” (Birnbaum and Stegner, 1979) that colours their perceptions. This idea is explored in the following chapter.

## **CHAPTER 7**

### **DEALING WITH PERFORMANCE AUDIT: AUDITOR- AUDITEE RELATIONS AND THE IMPACT OF JUDGE BIAS ON PERFORMANCE AUDIT CREDIBILITY**

*I suppose that the Auditor-General's Office strikes fear into most government departments – and, of course, so it should. No one seems to like auditors, but they are a very necessary part of any government, business, enterprise or whatever it may be (Australia, House, Parliamentary Debates, 1978, p. 2315).*

#### **7.1 Introduction**

In the previous chapter, I used the audit credibility criteria defined in Chapter 1 as a framework for analysing the study's empirical data. However, when I attempted to determine the conformance of ANAO performance audit with those criteria and thus assess its perceived credibility, I obtained mixed results. For example, although the study's stakeholder-participants regard auditor independence as an important characteristic of ANAO performance audit, with many evincing a firm belief in the

strength of the Auditor-General's powers, the empirical evidence suggests the existence of obstacles to auditor independence and differences among stakeholders in their conceptions of the construct. The notions of technical competence and audit usefulness are similarly important but problematic, due to the ill-defined nature of the knowledge base for performance audit, the potential for role conflict between public accountability and public management improvement and the antipathy of many auditee-participants towards the quality and usefulness of the ANAO's performance audit activity. Yet, the auditors, consultants and PAC members who participated in this study doubted neither the quality of its published reports nor their capacity to add value to the parliament and public administration. In other words, they took for granted the ANAO's mission, described earlier in this study, as a kind of value-adding public watchdog. The apparent inconsistencies in the participants' responses suggest that further analysis of their reactions and biases is needed before the ANAO's performance audit credibility can reasonably be established. So, while Chapter 6 focused on the isomorphism of ANAO performance audit with the rationalised myths of audit, this chapter is about how auditors and auditees interact with one another in the competitive environment of auditor-auditee relations, the impact of judge bias on those relations, and what those relations and biases might mean for performance audit credibility.

The potential for competition and conflict in auditor-auditee relations has long been recognised in the financial and internal audit literatures (see, for example, Churchill and Cooper, 1965; Blakeney *et al*, 1976; Wilcox and Smith, 1982; Vinten, 1992; and Flesher and Zanzig, 2000). There is an extensive body of work focused on the sources of auditor-auditee conflict and their implications for auditor independence (for example, Goldman and Barlev, 1974; Shockley, 1981; Knapp, 1985; Windsor and Ashkanasy, 1995; Pasewark *et al*, 1995; Jeppesen, 1998 and Umar and Anandarajan, 2004) and an

expanding literature on auditor-auditee negotiation and conflict resolution (for example, Beattie *et al*, 2000; Goodwin, 2002; Gibbins *et al*, 2005; Bame-Aldred and Kida, 2007; see also Fellingham and Newman, 1985). That negotiation occurs between auditor and auditee is not, in itself, an indicator of impaired credibility but rather a normal part of the audit process (Goodwin, 2002; see also Beattie *et al*, 2000; and Gibbins *et al*, 2001). Indeed, in the performance audit literature, negotiation is implicit in Morin's (2001, p. 100) conception of performance audit as a social influence process: the auditor attempts to influence the auditee's job performance and the auditee decides whether or not to be influenced. Evidence of auditor-auditee negotiation in a performance audit context is also found in Radcliffe (1999) and Sharma (2007).

If negotiation escalates into conflict, however, it could conceivably pose a threat to audit credibility by raising doubts about the auditor's ability to produce quality reports of value to users or, in situations where the auditee holds the balance of power<sup>106</sup>, by creating problems for auditor independence. Arguably, however, conflict between auditor and auditee is unlikely to arise to any significant degree unless the audit poses a credible threat to the auditee, in which case conflict may not necessarily arise because of genuine concerns about audit quality and value but rather as a strategic ploy in the game play between auditor and auditee (Fellingham and Newman, 1985), deliberately chosen by the latter player to influence an audit outcome. The empirical evidence explored in the previous chapter suggests that both negotiation and conflict can be a feature of the relationship between ANAO auditors and auditees and that either can occur in response to the institutional pressures imposed by ANAO performance audit. This suggests that the

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<sup>106</sup> The idea that the outcome of auditor-client conflicts depends in part on the balance of power between them was proposed many years ago by Goldman and Barlev (1974). They argued (1974, p. 710) that in traditional financial audit settings it is in fact the client company that holds the balance of power.

reactions of the study's auditee-participants to the ANAO, and the actions of the auditors and their proponents in response, need to be explored in more detail before a conclusion about the credibility of ANAO performance audit can be drawn.

The pressures imposed by ANAO performance audit, of course, stem from the role of the Auditor-General and his office, which was described in Chapter 4. In Australia's Westminster-style system of government, state audit is the principal means by which the parliament exerts pressure on the executive to comply with its public accountability obligations. These include the economy, efficiency and administrative effectiveness of its management of public resources, which is the domain of performance audit. Yet, the historical record considered in Chapter 5 demonstrates that the executive can respond with vigorous aggression to the pressures of state audit, especially when it ventures into politically-sensitive arenas. Indeed, at the institutional level, the executive has used a range of measures over the years in an effort to stifle and reduce its exposure to its auditors-general, including limiting their resources, challenging their mandates and denigrating the quality of individual reports, all measures that can undermine audit credibility. Furthermore, evidence presented in the previous chapter suggests that the executive, through its ministers and senior officials, may seek to influence audit processes during the course of audits. While clearly problematic for the ANAO, political interventions of this kind create challenges for auditee staff, too, because it puts them into a position of having to choose between their responsibilities and loyalties to their employers and their legal obligations under the *Auditor-General Act 1901*. Their dilemma is exemplified in the following comments expressed by an Agency line manager.

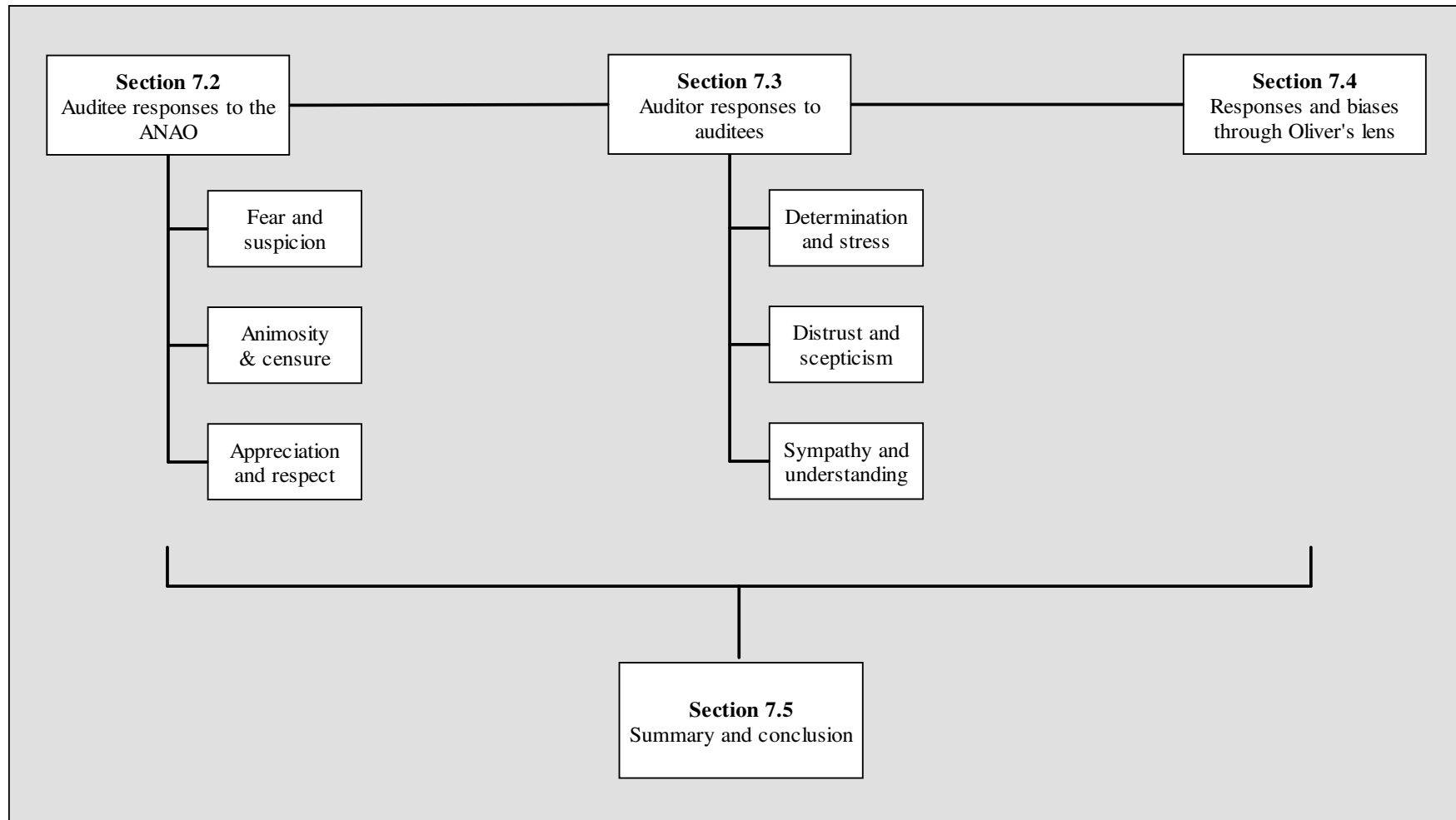
You feel a certain loyalty to your employer and to your chief executive and to your area manager, and you don't want to disappoint them and not be seen to be presenting something that could be seen as negative for the organisation. But at the

same time, you try to be honest and truthful (Interview with Auditee #1, 31 October 2003).

It is the reactions of auditor and audited to one another, as a consequence of the institutional pressures of state audit, that provide the central focus of this chapter, the structure of which is depicted in Figure 7.1. In the following sections, I consider the reactions of auditee-participants to the ANAO and its performance audit function (Section 7.2) and then the reactions of auditor-participants and their proponents to auditees (Section 7.3). Both sections are based on the second stream of ideas to emerge from the study's empirical data (see Chapter 6). Then, in Section 7.4, I explore the idea that their different responses to one another represent deliberate choices in their efforts to deal with the institutional pressures posed by the ANAO's performance audit function. That is to say, the section examines their reactions through the theoretical lens of Oliver's (1991) five-part typology of strategic responses. In the final section of this chapter, I reflect on the implications of the findings reported in this chapter for ANAO performance audit credibility.



**Figure 7.1: The themes of Chapter 7**



## 7.2 From fear to favour: auditee responses to the ANAO

When I analysed the transcripts of interview involving the study's auditee-participants, three sets of responses emerged from the data. The first set, referred to in Figure 7.1 as *fear and suspicion*, embraces emotions ranging from mistrust to paranoia. That such responses should be identified is consistent with the literature on auditor-auditee relationships, including Morin's (2001 and 2003) studies of performance (VFM) audit<sup>107</sup>. Feelings of this kind were expressed by almost all of the study's auditee-participants, either directly about themselves or indirectly about their colleagues. Consider, for example, the following extract from an interview with a line manager.

I just think, you know, that there's just the old thing of "the ANAO". I mean that they're actually an external body to our organisation and they're coming to check up on us. And ... there is this sort of fear that they're out to get you, rather than out to help us (Interview with Auditee #2, 18 November 2003).

Consistent with this view, an internal auditor said:

I think people have a perception that even if [the audited program] is really well run, [the auditors are] not going to say nice things about us (Interview with Auditee #7, 4 March 2004).

The following pair of comments, however, suggest that feelings of fear and suspicion may well arise from inexperience and ignorance, an issue that was raised in the previous chapter in the context of audit access independence.

When you're first confronted with an audit, you're apprehensive. There's a certain aura about, in particular, national auditors. ... There's a certain amount of apprehension about it (Interview with Auditee #1, 31 October 2003).

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<sup>107</sup> It is interesting that a report by the Institute of Internal Auditors on auditor-auditee relationships, referred to in "Auditor-auditee relationships" (CPA Journal, September 1978, p. 101) reported that "a sobering percentage of auditees still harbour feelings of distrust, suspicion, fear and hostility towards auditors". The evidence reported in the present study indicates that such feelings remain a significant feature of the auditor-auditee relationship.

I think a number of [my staff] were quite anxious about talking to the ANAO. They didn't know what they wanted to know [or] why they wanted to know it (Interview with Auditee #3, 12 December 2003).

Indeed, when asked if Agency staff understand what ANAO performance audits are about, another internal auditor replied:

Oh no, they don't have any idea, initially. Don't have a clue other than that they're going to be audited and there's something that goes to Parliament at the end of the day (Interview with Auditee #5, 24 February 2004).

Auditee #5 also spoke of the fear caused by the ANAO's statutory powers.

It's tied in with the legislation. I think that scares people too, the *Auditor-General Act*. The auditors will often flash around their little card, going, you know, "I can get it under the Act" and so people go: "Can they? What's this mean, exactly?" (Interview with Auditee #5, 24 February 2004).

Another source of fear evident in the data arose from beliefs about the dysfunctional consequences of negative audit findings. According to a line manager, Auditee #1, for example:

[p]eople understand the often serious implications of what may come out of an audit. In particular, if the organisation is seen to be doing things that aren't as effective or as efficient as they should be or don't comply with the sorts of requirements that government would expect of us and the community, then the implications for the organisation can be quite traumatic (Interview with Auditee #1, 31 October 2003).

Further, Auditee #5 drew attention to the potentially serious repercussions for individual staff associated with externally-published audit findings.

[Auditee staff] know that the internal audit stays internal. You know, it's not likely that you're going to lose your job over the findings of an internal audit. I think people pretty much understand that they might get stern words if the CEO sees that you've bungled something but at least we've identified it and now we're fixing it.

That's the objective of it. Whereas, people see that, you know, heads roll sometimes, if the ANAO gets a big finding and they make sure that it hits the paper (Interview with Auditee #5, 24 February 2004).

According to a line manager, the consequences of negative findings for SES staff are particularly severe because:

they're performance-paid. They are only on 3-year contracts, SES people, so, you know, there's all sorts of issues (Interview with Auditee #4, 27 January 2004).

Consistent with this view, another internal auditor remarked:

Because what we're doing [with internal audit] is, we're keeping it within the organisation. If [the audit report] goes outside the organisation, to Parliament and so forth, then people aren't going to be as forthcoming because that external criticism is the stuff that can affect, you know, the careers of the CEO and senior managers and all that sort of stuff so, I think that's an issue (Interview with Auditee #7, 4 March 2004).

A further factor that may contribute to this fear of ANAO performance audit is bound up with organisational myths about the ANAO's anti-agency bias and, thus, impaired auditor independence that perpetuate within the Agency. For example, according to a line manager, Auditee #4:

There was a lot of information given to me saying that the auditors will not look at anything favourably, that they'll focus on negative things. They will miss the positive things deliberately. They will screw things around to make a picture that's not really the picture. So I heard all the negatives from some very paranoid SES people (Interview with Auditee #4, 27 January 2004).

Newly appointed to the organisation, however, and determined to keep an open mind, Auditee #4 said:

I think it is paramount to this organisation that we get someone like [Auditee #5<sup>108</sup>] giving the middle-of-the-road advice, rather than the emotional advice that you get from, well, in a lot of ways, from either side, from [people with past experience of audit] to our SES, who all think that the ANAO is out to get them (Interview with Auditee #4, 27 January 2004).

Yet, for another line manager and long-term employee of the organisation, the audit process served only to confirm her preconceptions of audit.

Everyone was a little bit wary of audit because I think, in general, people are of the opinion that it's more of a 'gotcher' than an added-value type arrangement. And I think, since the process started, that has been reinforced, quite frankly, through the reactions and comments that have been made by the auditors. ... My impression throughout the interviews that I've been involved in is that what's being said isn't necessarily what the auditor will actually, you know, report on (Interview with Auditee #2, 18 November 2003).

The existence of organisational myths about the ANAO's approach to dealing with auditee agencies is also suggested in the following remarks.

An ANAO person went into an office and was asked to sign the visitors' book and got very upset and said: "No, I'm not doing that, I'm the ANAO, I don't have to", and silly things like that, you know? And so, I guess those stories become larger than life after a while and then they become what the ANAO is all about, even though there are lots of nice people there as well (Interview with Auditee #7, 4 March 2004).

Animosity and censure is the label that I have applied to the second set of responses that emerged from the data. These encompass feelings of dislike and even hatred, as well as criticism, cynicism and contempt. The internal auditor, Auditee #7, for example, remarked: "They just don't like them there. They don't want them there. They're an

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<sup>108</sup> Prior to joining the Agency, Auditee #5 had been a member of the ANAO's financial audit staff.

impost”. Indeed, Auditee #7 said he was astounded at the level of animosity in his organisation to the ANAO.

Now, I know people at the Audit Office, they’re going to say: “well look, we’re doing a great job”, and they probably are. But people in the agencies hate them, you know, and they can say whatever they like, but, maybe hate’s a strong word, maybe it’s dislike intensely or something (Interview with Auditee #7, 4 March 2004).

Consistent with this view, another internal auditor, Auditee #9, described the Agency’s CEO as “not particularly enamoured” of the ANAO. This followed a controversial audit, conducted previously in the Agency, the findings of which he said the CEO regarded as “outrageous and wrong” (Interview with Auditee #9, 8 March 2004). During my conversation with Auditee #9, he made many statements that indicated antagonism towards, and criticism of, the ANAO. Indeed, he described himself as someone who had “spent his whole career fighting auditors”. By way of example, he recounted an experience when, as a program manager elsewhere in the APS, he successfully challenged the ANAO over the findings of a financial audit.

I started doing some research and thought, I know how to fix this, so I wrote to every professor of accountancy in Australia plus probably another dozen or so overseas, explaining the situation. Every one of them came back and supported where I was coming from (Interview with Auditee #9, 8 March 2004).

About the ANAO’s performance audit activities, he remarked:

[t]he real problem for us, I think, with the ANAO is, no matter how much they deny it, they’re always looking for a headline. And even when you say, no that’s not right, we’ve even had some things they’ve published which we know is not right, we’ve told them it’s not right, but it’s too good to pass up on their part (Interview with Auditee #9, 8 March 2004).

Chapter 6 noted that many auditee-participants, like Auditee #7, were critical of ANAO staff, with some complaining of bias and incompetence and others denigrating the auditors' personal attributes and skills. For example, ANAO auditors were censured for their "relatively narrow and mechanistic view" (Interview with Auditee #3, 12 December 2003) and their "textbook" approach (Interview with Auditee #4, 27 January 2004); their inability to appreciate or deal with the complexities of the organisation and its structures (Interview with Auditee #3, 12 December 2003; Interview with Auditee #4, 27 January 2004; Interview with Auditee #8, 16 March 2004); their tendency to draw conclusions too quickly and their "Mickey Mouse" findings (Interview with Auditee #9, 8 March 2004); the lack of timeliness of their reports (Interview with Auditee #5, 24 February 2004; Interview with Auditee #7, 4 March 2004); their pettiness (Interview with Auditee #4, 27 January 2004) and "nit-picky" tendencies (Interview with Auditee #7, 4 March 2004); their 'gotcher' mentality (Interview with Auditee #2, 18 November 2003; Interview with Auditee #5, 24 February 2004); their poor people skills (Interview with Auditee #4, 27 January 2004; Interview with Auditee #9, 8 March 2004), and their rudeness, arrogance and aggression (Interview with Auditee #2, 18 November 2003; Auditee #4, 27 January 2004 Auditee #9, 8 March 2004). ANAO staff were also referred to, scornfully, as "stick in the mud" sort of people who do business in a "funny sort of way" (Interview with Auditee #4, 27 January 2004). According to Auditee #2, her colleagues were also critical of ANAO auditors for wasting their time and not listening to their evidence. Interestingly, she also claimed that her colleagues commonly adopted an uncooperative attitude to audit, described colourfully as "tell them nothing, take them nowhere: unless they ask we're not going to tell them" (Interview with Auditee #2, 18 November 2003).

Yet, despite the fear, suspicion, animosity and censure that I identified in the empirical data, a number of more positive reactions to ANAO performance audit were also in

evidence. I have coded these responses together under the one heading, *appreciation and respect*. One example of a positive response is provided by a line manager, who was prepared to praise the audit team, despite his obvious anxiety over the findings of the observed audit.

Oh look, they're pretty switched on, they really are. I mean, I'm amused a bit by how much they've picked up, even some of the slightly obscure bits of the business, where you probably wouldn't expect them to come across that, even that they seemed to have picked it up. They're very, very bright. I would just wish, for our sake, that they see it as a positive audit, and that they look at it in such a way that the organisation can learn from it (Interview with Auditee #1, 31 October 2003).

Other line managers, while recognising that problems would inevitably be found, remarked on the benefits to be gained from the audit process.

There'll be a number of barbs in the report and there'll be a number of things we can act upon. And there'll be a number of things we'd already had in train, but there are other things that we are hearing from what they're saying, you know, that we need to act on sooner rather than later. ... Look honestly, when you're responsible for managing a [multi-million dollar program], you can't expect a positive finding from the ANAO. It's not going to be a glowing report. That's what my assumption was from the outset so ... anyone reading an ANAO report [on this program] would expect them to get into us ... It's not going to be pretty so we'll have to cope with that but I think there will be some positive things that come out of it, you know. I think, on balance, we can use it. I think the way we're going to have to react to this is ... contest issues, contest observations which we don't agree with but, you know, take seriously things that are worthwhile feedback and do something with it (Interview with Auditee #3, 12 December 2003).

Also relevant to the appreciation/respect form of response are Auditee #6's views (see Chapter 6) about the "confidence boost" that had been obtained from an ANAO audit as well as the useful feedback on areas requiring the line manager's attention. The ostensible willingness of Agency staff to cooperate with the auditors, noted during the



participant/observation stage of the study and my conversations with Agency staff, also suggests a cooperative response to audit, despite the more negative feelings described earlier in this section. A line manager, for example, claimed: “We think it’s in both our best interests to have a good working relationship”. An apparent willingness to cooperate was also evident among those auditor-participants, like Auditee #1, who spoke of their efforts to assist the audit team.

I’m interested to hear what [the audit team is] interested in and when I listen to what [the audit liaison officer] has to say and what the [other auditee staff affected by the audit] have to say, it’s only to give me background in what the focus of the audit is. I’ll decide for this area what I think is a good approach for [the auditors] and give them the choice. I mean, we gave them the itinerary. If [the audit team] didn’t agree with it, fine, no skin off my nose. I was just putting something in place that I thought would be useful for them, given that my motivation in this whole process is to present information to them that I think can be useful for them in the audit, and hopefully they can use. And I think it was also important that they see bits of the business that they’re not likely to see [elsewhere] and that way, it gives them more balance (Interview with Auditee #1, 31 October 2003).

For Auditee #6, however, there were limits to the amount of assistance he was willing to provide.

It wasn’t my role to lead them by the nose to say you need to look at this and to look at that. But I think sometimes they missed the point of ... where we were trying to take them or where they needed to go (Interview with Auditee #6, 3 March 2004).

Nevertheless, the manner in which auditee staff seek to assist auditors can be problematic. The defensive tone present in Auditee #1’s remarks, cited above, was the outcome of an incident that I witnessed at an early stage of audit fieldwork, when the auditors interpreted the Agency’s efforts to assist them as interference. According to Auditee #3, the audit team had misunderstood the situation.

Certainly, it was our intention to try and make sure that we guided [the audit team] in their considerations .... Made sure that they saw who they needed to see but also understood what people told them because ... when you have an external body looking at an internal body, and I've seen this in many areas, you've always got to translate things. ... So then, that's the area of tension, in trying to bring the auditors up to speed with what's actually going on, without them feeling that we're trying to capture them (Interview with Auditee #3, 12 December 2003).

Notwithstanding the tensions that arose over this issue, by the end of the observed audit, the auditee-participants seemed much less negative about the audit and its auditors. This can be seen in the following remarks about the audit team's agreement to exclude a disputed issue from the audit report.

Our problem was that, that [issue] is a politically sensitive aspect and so their agreement just to take that out [of the report], that was good, a good thing. The issues that they raised [in the exit interview], I think it's interesting because I can say that the majority of them, we were already dealing with in one way or another (Interview with Auditee #2, 21 April 2004).

Moreover, asked whether he thought, in the end, that he would agree with the audit team's findings, Auditee #6 made the following intriguing response.

Oh, I'd say, on the whole because the feedback that we've had ... seems to be touching all the areas that we wanted, that we want touched and seems to have the same sort of conclusion that we've already made ourselves. And every audit's going to have one or two prickly points in it and I think we have to accept that, and we have. On the whole, if the team now continues to consult the way they have been in the last half of the audit, I think it will be a mutually-accepted document to go forward (Interview with Auditee #6, 3 March 2004).

Further, it was a PAC member's impression that, by the time audit reports came before the PAC, auditees were generally prepared to accept audit findings<sup>109</sup>.

Yeah, it varies from department to department. But I would say that my general view is that departments may be embarrassed about audit findings but recognise that they do ... add value. They do, they make departments think more carefully and behave more carefully and that's a benefit for everyone. ... At times you see a little bit of resistance but by and large, I think, in most of the performance audits we've looked at, the relevant departments have adopted all or most of the recommendations, which I think speaks for itself. ... When we've done follow-up inquiries as the [PAC] regularly does, those departments have told us that they have improved their practices because of the performance audits.

With contentious issues dealt with, conflicts resolved and outcomes more certain, it is plausible that Agency staff would feel more positive at the end of an audit, rather than at its beginning. The auditee-participants' views may also reflect the style of conflict management used by the audit team that I witnessed in the field. In her exploratory study of how traditional auditors manage conflict with clients, Goodwin (2002, p. 392) found that auditors showed a preference for an integrating style of conflict management when attempting to resolve issues. An integrating style is one that involves collaboration and an open exchange of information to achieve an outcome that is agreeable to both parties. My observation of one audit team's dealings with an auditee-agency, together with my analysis of the auditor-participants' responses to agency staff, suggest that, by and large, an integrating conflict management style is also preferred by ANAO auditors. This does

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<sup>109</sup> The final report, tabled in parliament in August 2003, contained nine recommendations of which eight were agreed and one was agreed with qualification. When the qualification was queried later by the PAC, the auditee explained that the qualification reflected the auditee's own uncertainties about how to implement the recommendation rather than a rejection of the recommendation itself. It is notable that the auditee made no criticism of ANAO before the PAC but rather expressed its appreciation for the ANAO's assistance in helping the Agency to deal with a contemporary matter of concern.

not mean, however, that ANAO staff always react to auditee staff in a positive manner: indeed, quite the contrary, as the next section will reveal.

### **7.3 Sympathetic sceptics: auditors' responses to auditees**

Unlike the auditee-participants, the auditors and consultants who participated in this study were mostly positive about ANAO performance audit, exhibiting a sense of pride in their work and an unquestioning confidence in its significance for parliamentary control and public management improvement. Pride and confidence are evident, for example, in their reasons for joining the ANAO (Interview with ANAO #4, 14 January 2004), the satisfaction they obtain from assisting auditee staff (Interview with ANAO #1, 25 November 2003, the ANAO's "incredible knowledge, expertise and understanding of topics" (Interview with ANAO #13, 5 October 2005), and other views about its value, not previously quoted in this study, such as the following, expressed by an audit executive and two of the consultants who participated in this study.

[Performance] audits are very much a stimulus to improved public sector administration and there's no doubt that the Office raises issues which need attention (Interview with ANAO #14, 5 April 2004).

I think [ANAO auditors] do a really good job. I think it's a very tough one and I think that performance audit as a form of allowing executive government to be monitored, you know, is a very powerful one. I think it's a very good one (Interview with Consultant #1, 24 February 2004).

Sometimes ... the only thing that has brought matters to light, or been the impetus for change, has been an ANAO performance audit, so clearly, yeah, without the ANAO and performance audit, there would be improvements that aren't being made (Interview with Consultant #2, 26 March 2004).

This section, however, is not about how performance auditors and their proponents respond to performance audit but, rather, about their reactions to auditee agencies and

staff. The empirical evidence revealed a curious amalgam of determination, resilience, frustration and stress in response to auditee opposition, distrust and scepticism regarding auditee tactics, and sympathy and understanding for the plight of agency management and staff. A determination to audit and report to the parliament as they saw fit, regardless of the actions of and consequences for individual auditees, was evident in many of the participants' comments. Consider, for example, ANAO #10's comments about the "necessary tension" bound up with the ANAO's role in reporting to the parliament, noted in the previous chapter, and also ANAO #8's view of the "real role" of his office, which was to report to the parliament on agency efficiency and effectiveness. A couple of field auditors were similarly committed to their role in informing the parliament.

We've got a role of telling a parliament - whether it wants to hear it or not, or do anything about it or not - telling a parliament about a particular area of public administration, as it was when we were there doing it (Interview with ANAO #4, 14 January 2004).

That's another pressure on us because you still have this relationship with the auditee but, at the end of the day, you've got to tell the truth, so ... you tell it like it is (Interview with ANAO #2, 25 November 2003).

Yet, according to a consultant, in meeting their responsibilities to the parliament, ANAO executives:

need to have hides like rhinoceroses and they need to ... have a firm commitment to the bigger picture - the importance of auditing in the overall administration of public policy (Interview with Consultant #2, 26 March 2004).

The consultant's remarks were prompted by an unfortunate personal experience of auditee aggression, the details of which he declined to include in the transcript of interview. The issue of auditee aggression, and the need to develop skills in dealing with it, was noted in the previous chapter as well (see, in particular, ANAO #11's comments about the

occasional toughness of the job and the experiences noted by ANAO #1). Some participants, like ANAO #1, spoke of auditee aggression and hostility with apparent equanimity, accepting it as an inevitable part of the audit environment. When auditee aggression becomes personal attack, however, it can be frustrating and stressful for auditors and consultants. For example, consider the following comments by a field auditor and recent victim of such an attack.

Mainly it's just like, how ridiculous, that you need someone at the Dep. Sec. level to start pinging the individual auditor who's causing a bit of discomfort by, you know, saying whatever ... that's the pathology that I was talking about ... that pathology of personal attack to distract everyone from the actual main game. ... It just really depends on the tone that's set at the outset and the sort of behaviour that's tolerated within the audit agency. You know, there's a bit of an attitude of, well, give 'em stick and make them work hard. Then people think that it's *carte blanche* to slag the auditors and, you know, duck and weave (Interview with ANAO #5, 2 February 2004).

Further, personal attack can make auditors aggressive towards auditee staff, in return. Note, for example, ANAO #7's comments, included in the previous chapter, regarding the need in the face of personal attack to be "the first to step back and say, stop" (Interview with ANAO #7, 25 March 2004). An ANAO executive also noted the potential for auditors to react aggressively towards auditees when under attack.

A 'gotcher' mentality. You can still get that where auditors get peeved with the auditee, where they don't trust the auditee, and the auditee's giving them a hard time (Interview with ANAO #8, 8 March 2004).

That auditee aggression can potentially impair audit objectivity is consistent with Pasewark *et al* (1995, p. 88), whose study of auditor-auditee relations in a traditional, financial audit context, noted previously in Chapter 6, found evidence that powerful client employees intimidate at least some in-charge auditors and that this intimidation can cause

difficulty in maintaining an objective attitude. In contrast to Pasewark *et al*, however, it appears that, for ANAO performance auditors, impaired objectivity may work against the interests of the auditee, rather than in its favour. In fact, while frustration and stress were sometimes evident in the participants' responses, the more common reactions were distrust and scepticism. This was revealed, for example, in the myth-like stories that participants told about auditees, especially the methods they employ to delay, block and otherwise resist ANAO audits. Consider, for example, the following comments, made by an ANAO consultant:

You get a place like [the Agency] ... they're past masters at the art of destroying a performance audit. They'll transfer the people that were managing the function to Western Australia; they'll abolish the function so, you know, we're coming to do a performance audit of training. "Oh, we just completely abolished our training division and we're re-jigging it and, you know, we're developing a whole set of new strategies, so come and do the performance audit if you like but it's of something that we've changed" (Interview with Consultant #3, 15 April 2004).

A field auditor remarked on a similar experience.

I've got examples where the auditee actually abolished all the arrangements to do with their training so that we couldn't audit them and say there was anything wrong with them (Interview with ANAO #1, 25 November 2003).

Further, according to another field auditor:

[i]f they're cooperative, I think the audit goes smoothly. If they're not, or if they see that we're trying to do something to them, or they feel threatened, ... they'll do things like, they'll delay the start of the audit; people will suddenly go on long service leave, key personnel; or they will quickly reshuffle their key management appointments, so quite a new person will come into the area that we want to look at. They will, you know, provide very scanty up-front details, background on the topic. They'll, you know, directly criticise any of your initial draft or scoping reports saying, oh, that's not correct and we didn't get the right data, and even though you asked for it, they didn't give it to you anyway. You know, just little things that just

build up a strong indicator of their ... corporate state of mind (Interview with ANAO #5, 2 February 2004).

An ANAO executive related a similar story, noted also in part in Chapter 6, about auditee tactics.

[e]verything from having key staff not being available; throwing up legal challenges in respect to privacy – [the] commercial nature of transactions; they will say documents aren't available because it's better to go down on poor document management than, say, some serious matter. Information will be slow in coming. There'll be contradictory information, or data coming through the networks are spread wide so the number of people that you need to communicate with is rapidly growing in some agencies, so just generally the complexity. More and more senior people are getting involved, especially in draft reports. So while you may have a good, common understanding through the process, when the draft report actually hits the agency and goes to the Secretary or Deputy Secretary level, there's a renewed level of interest, albeit new because they have not been party to previous dealings. Now that causes a problem, of course, because, if people are defensive, they may not remember, for one reason or another, the conversations we've had in the past. So I've actually had exit interviews with agencies, quite senior people, and those people have denied some conversations we've had [with them during] the exit interview phase (Interview with ANAO #8, 8 March 2004).

Indeed, ANAO #8 was suspicious of auditees, even when they were seemingly prepared to cooperate with the audit team.

Some agencies are very positive and will work with the auditor - I think not as much to manipulate but rather to influence a report and the way an audit comes out (Interview with ANAO #8, 8 March 2004).

These sentiments were echoed by a consultant.

I guess mostly what happens is that people know you can't beat the auditor. You can never beat the Auditor-General. People at senior levels. So they're all outwardly very, sort of, helpful and "it's wonderful you're here" and "we're fully supportive".



But a lot of them will then be actively seeking to undermine the audit process (Interview with Consultant #3, 15 April 2004).

Among the resistance tactics used by auditee staff was one described by a field auditor, recently recruited from elsewhere in the APS.

One used to say, when the auditor says something, “prove it”, then if they can, you say, “it doesn’t matter” ... Where you ask a question which sounds to you like a good question but the auditee will pooh-pooh it as if you’re, you know (*makes gesture indicating madness*), that’s when you know you must get an answer to that question (Interview with ANAO #2, 25 November 2003).

The tactic of delaying the start of the audit, referred to by ANAO #5 earlier in this section, was also noted by an ANAO executive. His comments suggest, however, that the ANAO has its own armoury of tactics for dealing with recalcitrant auditees, providing evidence of the game play between auditors and auditees, posited by Fellingham and Newman (1985).

Often the more common issue, from memory, with agencies was the timing one. To say look, you know, we’re just about to reorganise or whatever, why don’t you do this (topic) instead? ... The Office is sensitive to genuine timing issues, but you have to be careful that you’re not blown off course. But ... the other thing the Office says is look, there is a range of audits we might do and only always intends to do a subset of those, so an agency can never quite be sure whether any particular audit is going ahead or not (Interview with ANAO #14, 5 May 2004).

According to ANAO #14, by keeping agencies guessing, the ANAO can limit their ability to put “their internal audit teams to work very quickly to head off the Office” (Interview with ANAO #14, 5 May 2004). Other participants also spoke of situations in which internal auditors were implicated in an auditee resistance tactic. For example, a consultant described how an auditee attempted to use an internal audit to block access to audit evidence.

For example, in an audit where they say, well, the ANAO cannot look at that area because our internal audit has already looked at that area, and we have an agreement that, you know, you don't look at what we look at, for example. And I pointed out, now clearly, you know, that under the Act, the agency can't say that. The ANAO has an ability to determine the scope of its investigations. And so, in that instance, that agency's call was rejected and we did consider an important part of the administration of the program which was actually significantly deficient, and was the subject of a number of recommendations (Interview with Consultant #2, 26 March 2004).

Yet there may be internal audits on sensitive topics about which auditees may prefer the ANAO to remain unaware. A field auditor, for example, remarked on an incident in which the auditee failed to disclose an internal audit report on a matter of interest to the audit team.

We found out that there was an internal audit done on a mercantile agent. We didn't know about that even though we specifically asked for that audit report, if there was one done, six weeks before and we were told there wasn't. And then the mercantile agent let slip that the internal auditors were there six months ago (Interview with ANAO #7, 25 March 2004).

Another tactic referred to by some participants involved auditees attempting to control or manage audits by arranging for senior head office staff to be present at interviews with junior and regional staff. According to a consultant, this can make audits expensive and access to evidence very difficult.

I've had agencies that have insisted that, for every interview conducted with a junior officer, a senior officer is present. That quite obviously stifles the process considerably (Interview with Consultant #2, 26 March 2004).

In reference to the same issue, an ANAO executive remarked:

I think agencies tend to try and control an audit through these senior people. So when you look at some of the [areas in which the Agency and similar agencies are

engaged], they will control the meetings through senior [staff], at least branch head and above. The ones that are concerned about audits will also tend to shadow you into meetings in the regions, which of course then impacts on your evidence. To some degree, in some agencies we've actually banned them from meetings (Interview with ANAO #8, 8 March 2004).<sup>110</sup>

One field auditor, however, suspected a connection between the ANAO's banning of auditee staff from interviews and personal attacks on two of his colleagues.

So it's interesting, it's twice they've done that, where we've tried to sort of rip some ground back off them, to make the audit process easier from our point of view, both times they've attacked our people ... so, it is like a tactic that they don't want to give up ground easily (Interview with ANAO #3, 9 December 2003).

Among the auditor-participants, there was a view that some agencies are inherently more difficult to deal with than others. For example, an ANAO executive argued that if agencies are "close to the centre of government, they can be very, very resistant to dealing with us on particular issues" (Interview with ANAO #11, 18 March 2004). Further, ANAO #11 argued that agency managers sensitive to their positions under contract and a "pickier Ministerial environment" also increase the propensity for auditee resistance. When asked if the situation had improved over time, ANAO #11 replied:

Oh I think their sensitivity around performance auditing is probably worse. We now have a much higher involvement of ministers in clearing draft reports. They're quite active in all of the big agencies ... and that involvement has actually slowed the process a fair bit (Interview with ANAO #11, 18 March 2004).

Ministerial involvement in audits, first discussed in Chapter 6, was raised by a number of the auditors who participated in this study, although mostly in terms of suspicion rather

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<sup>110</sup> Evidence of this practice was noted by the researcher during the participant observation phase of the audit and was the cause of the friction between auditor and auditee, noted earlier in this study.

than established fact. Consider, for example, the following discussion between two field auditors that occurred during a joint interview in November, 2003.

ANAO #2: Well, you don't know, you see? This is one of those things you don't know about ... You don't know whether they've had instructions from the top. Sometimes you can find out, sometimes people leave things lying around where they shouldn't, emails to this effect or that effect.

ANAO #1: And sometimes people will tell you.

ANAO #2: Yeah, sometimes they'll tell you but generally you don't know when you've got someone who's just trying to be smart and deals with you as though he's before Senate Estimates, or he's had instructions from the top as to how to deal with auditors (Interview with ANAO #1 and ANAO #2, 25 November 2003).

A couple of participants also despaired of the changing culture of the APS and, for them, the demise of the notion of frank and fearless advice. According to ANAO #1, for example:

I think [getting auditee staff to cooperate] is getting harder to do simply because of some of the things that are going on in the public service. ... You've got a lot of people who think the answer is to say "Yes Minister" to absolutely everything and not to provide any sort of frank, fearless, plain advice (Interview with ANAO #1, 25 November 2003).

Similar concerns about the loss of "frank and fearless" (Interview with ANAO #6, 10 March 2004) and the inevitable role conflict between the ANAO performance auditors and agency management (Interview with ANAO #5, 2 February 2004) were noted in the previous chapter. Further, for one ANAO executive, it was the personalities of individual agency heads that can create occasional difficulties for ANAO staff.

You always get agency heads that just don't like being criticised and some put up the shutters and don't let the ANAO in. If they believe that people go in there and thump

the table and create merry hell, they will react (Interview with ANAO #9, 28 April 2004).

His views suggest that managing auditees requires an awareness of auditee sensitivities and sensibilities. Indeed, for another ANAO executive, sympathy and understanding are an intrinsic aspect of the professional relationship between auditor and auditee.

Need to be able to manage the relationship with the auditee. To have a professional relationship: can't be too close but it can be empathetic, it can be understanding. And it needs to be balanced so there's firmness required as well as being empathetic to the situation (Interview with ANAO #13, 5 October 2005).

Balancing sympathy and firmness can apparently be challenging, however. For example, when I asked a field auditor about the impact of her previous employment elsewhere in the APS on her work as a performance auditor, she replied:

What it does is it makes me pull up now and then and reassess. Sort of, put myself in the other person's shoes. I think it's a fine line for us because, ultimately, I think we're here to present the facts. We've got this view that we need to have a balanced view and of course, that's fair enough. But, yes, there is a fine line because even though I may understand why things have happened the way they've happened, the fact still may be what's happened isn't the right thing. So, I guess, in part, what it does help me to do in discussions with people is to at least show to them that I do have an appreciation of what they're doing and an appreciation of why things happen in the way they happen (Interview with ANAO #6, 10 March 2004).

Similarly, another field auditor explained:

One of the tensions that we have is that we will encounter good and honest folk doing their best. But what they're trying to do is probably impossible, either because of the shortness of time, shortages of staff, and that might make us very sympathetic with the people that we're auditing, but we still have to actually tell the truth as to what we find. That can be difficult because, you know, [there are] people who are sweating blood out there trying to work under very difficult circumstances (Interview with ANAO #1, 25 November 2003).

Sympathy for auditee staff, together with recognition of the tensions that audits can create for them, was also expressed by an ANAO executive.

Because, I mean, in a way, I think a lot of agencies are very committed about what they're doing, you know, carrying out the government's policy and being asked to rationalise that policy. They're asked to advertise that policy, to talk about that policy, to reinforce its worth. And then all of a sudden they have a performance auditor coming along and sort of saying, well OK, you're actually doing this activity, you know, what measurable outcomes have you achieved and how do you know you're achieving it? And if they haven't achieved the outcomes that are set out, then, we're actually challenging their whole mental model (Interview with ANAO #11, 18 March 2004).

Even the field auditor, ANAO #5, a recent victim of personal attack, revealed sympathy for the offending agency.

Could I just mention that they're very, very concerned about style in [the Agency]. It's fair enough too, I mean, everyone wants to be treated with respect ... even if you ask those hard questions and get as much ammunition out of them, you do it in that gentle supportive way, and you maybe also give them some positive feedback, where you think, ok, that's good, that's fine, you've done well there ... I think that's very important from the auditee's point of view. And if it's not done, and it's just, like, you're looking for weakness and that's all you're after (Interview with ANAO #5, 2 February 2004).

Moreover, there was recognition and understanding of how parliamentary and media interest can be detrimental for auditees.

[T]he press turns most things into a negative, so there's a feeling about unfair reporting and we can't control the press. And people appreciate that but they still don't appreciate the negative feedback. And I think secondly the parliament's response to performance audit is always polarised. On the one side, you get the opposition who wants to use performance audits to attack the government, and sometimes I think there's a feeling that the government uses performance audits to

implement some policy change or to take some action against individuals (Interview with ANAO #8, 8 March 2004).

That auditee staff experience fear and anxiety when faced with ANAO audits was also acknowledged.

They think ‘oh the auditors are coming, what have I done wrong’, so there’s a lot of nerves in it. People can be extremely nervous because they think ‘if they’re wanting to see me, I’ve done something’, when it’s nothing to do with them, so, there are a whole lot of things like that to deal with. And various anxieties reach through the whole organisation but they’re most pronounced with the junior bods or the inexperienced bods, so the more you can disabuse all of them of those concerns, the better (Interview with ANAO #4, 14 January 2004).

According to ANAO #5, fear of management retribution is partly to blame for their anxiety, especially with sensitive audits.

The anecdotal evidence is that people who have been on those hard audits ...those people who were, you know, liaison officers and assisted the audit and were the heads of that area have all basically got demoted or shifted or told to retire. ... I think there’s a lot of fear of what the impact of an audit can be. And it’s not so much a fear of what we do, it’s a fear of what management will do in response to our findings (Interview with ANAO #5, 2 February 2004).

His colleague, ANAO #6, argued that auditors can never expect to eradicate auditee fear and anxiety completely.

People have emotions and, of course, can get a bit stressed, you know. ... we’re never going to be completely successful [in managing auditee stress] because we can’t completely eradicate that fear nor can we eradicate the fact that we do say things, you know, that put people on the spot (Interview with ANAO #6, 10 March 2004).

Nevertheless, a number of participants, including ANAO #6, spoke of their efforts to alleviate auditees’ distress.

For me, it's really about trying to put people at ease ... stressing that we are not looking at you, we're not looking at the office, we're not looking at the area. We're looking at systems ... that there are no right or wrong answers ... We're asking them to describe things to us, how this might work. So it's more, you know, how you do things, not what you do necessarily. ... It's unfortunate that it seems so onerous but it's the only way we can get the information about what really happens on the ground (Interview with ANAO #6, 10 March 2004).

The auditors' methods of dealing with Agency staff that I witnessed in the field during the participant observation phase of this study were largely consistent with ANAO #6's stated approach.

#### **7.4 Interpreting responses and biases through Oliver's lens**

The responses of auditees, on the one hand, and auditors and consultants, on the other, to ANAO performance audit and each other are clearly very different, a finding that is consistent with the literature on auditor-auditee relations (see, for example, Hopkins, 1997). The auditee-participants exhibited mostly fear and animosity towards performance audit, yet positive feelings as well, especially towards the end of the observed audit as feelings of threat diminished and the outcomes and benefits of the audit became more obvious. Conversely, the auditors and consultants were proud of their involvement in ANAO performance audit, sceptical of the auditees' responses to it but nonetheless sympathetic to their plight. These findings could arguably be analysed from a number of perspectives. For example, they could be explored for insights into the conflict management styles employed by ANAO staff, in a similar manner to Goodwin's (2002) study of how auditors resolve disputes with clients concerning financial statement issues. Alternatively, consistent with Morin's (2001) study of performance audit effectiveness in improving public administration, they could be examined for evidence of the ANAO's capacity to influence auditees' job performance. The interactions between auditor and



audited could be viewed, also, from a behaviouralist's perspective as an application of game theory (see, for example, Fellingham and Newman, 1985) and used to explore the ANAO's approach to audit decision-making.

Rather than adopt these approaches, however, for reasons argued in Chapter 2 I have chosen the new institutionalism as the theoretical lens for this study, including Oliver's (1991) typology of strategic responses which is useful for making sense of the participants' responses. Oliver (1991, p. 151) argues that institutional theory is capable of addressing a wide range of strategic responses, provided it assumes a potential for variation in the resistance, awareness, pro-activeness, influence and self-interest of organisations. Consistent with this view, she identifies a repertoire of behaviours that organisations may exhibit in response to institutional pressures and expectations. This is represented by a five-part typology of strategic responses, described earlier in Chapter 3, encompassing acquiescence, compromise, avoidance, defiance and manipulation. For convenience, Table 3.1, which summarised Oliver's typology is reproduced here in Table 7.1.

**Table 7.1: Oliver's typology of strategic responses**

Please see print copy for image



(Oliver, 1991, p. 152, Table 2)

Within Australia's Westminster-style public accountability framework, ANAO performance audit is a source of institutional pressure, exerted on the executive on behalf of the parliament to account for the efficiency, effectiveness and economy with which it manages and uses public resources. In other words, these accountability obligations are the institutional norms and values that the parliament imposes on the executive, through the agency of ANAO performance audit. In Oliver's terms, the ANAO can thus be construed as an external constituent whose function is to coerce conformance with institutional norms and values. Yet, the reactions of angry executive governments in response to the institutional pressures of performance audit can prove problematic for the ANAO. The historical record considered in Chapter 5 shows that the executive has had a

range of strategies over the years to limit the intrusions of audit, including denigrating audit reports, attacking the reputations of auditors-general and their staff, limiting resources, and challenging the audit mandate. In Oliver's typology, these are examples of defiance and manipulation strategies, exercised at an institutional level of organisational interaction.

This section, however, is mainly concerned with the responses of auditees to ANAO performance audit, as seen through the eyes of the study's stakeholder-participants. In so doing, it draws on the views expressed by the auditee-participants themselves as well as the perceptions, or allegations, of others about how auditees react to audit. Before exploring these views and allegations, however, it is interesting to view the reactions of the auditor and consultant-participants to ANAO performance audit through Oliver's lens. The empirical evidence suggests that these participants took their right and capacity to audit largely for granted. Notwithstanding attempts by some to distinguish performance from financial audit and by others to portray themselves as analysts rather than auditors<sup>111</sup>, the auditors and consultants had apparently internalised the norms and values of financial auditing in a manner indicative of Oliver's acquiescent/habit response. Further, their

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<sup>111</sup> For example, consider the following discussion, extracted from my observation notes, between a field auditor and one of the Agency's line managers.

P\*: "we're not auditors, we're analysts. It's a bit of a misnomer." P\* explains that auditors look at numbers. Points out that the business card says they're performance analysts. "The only thing that's audit-related. We're more unlike auditors than like them." A talks about audit ... negative connotations. P\* says that auditors look at economy ... "we look at efficiency and effectiveness". [The line manager] asks "Haven't we got auditors in [the agency]?" P\* says: "They adopted our model ... they're very narrow ... we go down burrows ..." [The line manager] says their auditors were very prescriptive. P\* talks about what financial auditors do ... gives example using Ernst and Young - expresses view that Ernst and Young don't look behind the values (Observation #25, 6 November 2003).

When I pursued this idea with another of the Agency's line managers, she said:

I was just coming back to [the point about auditors] describing themselves as analysts. An analyst is somebody who can come in and look at something and bring a fresh view, and then debate the view. An auditor is something different ... And so, maybe they're right to call themselves analysts but that begs the question about whether they should be located in the ANAO (Interview with Auditee #2, 18 November 2003).

compliance with the Auditor-General's gazetted standards, which expressly adopt (imitate) professional accounting's auditing standards, is also consistent with an acquiescent style of response. Convinced of their right and capacity to audit, the auditors and consultants responded to auditees in ways that were designed to coerce cooperation, avoid being taken prisoner by the hidden agendas of agency staff, and achieve audit objectives in the face of auditee opposition. Further, the empirical evidence, discussed previously in Chapter 6, reveals a contemporary preference for achieving results through persuasion and negotiation rather than confrontation, although this clearly occurs from time to time.

For the auditee-participants, however, there were few signs in the empirical data of acquiescence to performance audit, and what evidence there was, was mainly to do with their apparent support for the principle of public accountability. Instead, as regards the ANAO and its performance audit function, the participants' responses revealed more resistant forms of behaviour. That this should be so is both plausible and understandable because of the competing pressures on auditee staff noted by the participants, the personal consequences for agency heads and staff that allegedly result from unfavourable audit findings, and the subjective nature of performance audit itself, which increases the proclivity and opportunity for negotiation and dispute. The first, and least active, form of resistance revealed in the data is what Oliver (1991, p. 153) refers to as partial conformity. This is characterised by the auditees' grudging cooperation with ANAO auditors, notable for their reluctance to volunteer unsolicited information and tardiness in providing requested information. In Oliver's model, this type of behaviour is consistent with the compromise tactic of pacification because, despite their resentment, the auditees were prepared to cooperate with the audit team, after a fashion, or at least to be seen to do so.

For one line manager, in fact, it was the auditors' behaviour that established whether auditees would cooperate or not.

If somebody is coming at you hard and strong, there is usually an equal reaction from the other side and you end up with clashing incidents. ... And people just need to be a bit more clever, I think, with the way things are presented, so they don't create an environment of hostility and confrontation. When that happens, you won't get the best result. People become defensive, and then start to look at reasons why things shouldn't happen, whereas if it's portrayed in a positive way, and it gives the organisation a bit of an out, then I think you can start to see possibly better improvements (Interview with Auditee #1, 31 October 2003).

Another compromise tactic, bargaining, was also apparent in the data, particularly in the negotiations over key findings that I noted towards the end of the observed audit, and in comments during my conversations with Agency staff. One line manager, for example, remarked:

I think the way we're going to have to react to this is ... contest issues, contest observations which we don't agree with but, you know, take seriously things that are worthwhile feedback and do something with it (Interview with Auditee #3, 12 December 2003).

There was also some suggestion in the data that, although Agency staff may not welcome the audit experience, nonetheless it was to be seen to have political outcomes of benefit to individual programs and staff. Consider, for example, the following remarks made by a line manager regarding the expected outcome of the observed audit.

Because they'll either validate where we're going is correct or it will show that where we're going is incorrect and we need to tweak it or change it. There may be one or two dynamic things come out of it. I'm hoping that there is specifically one thing and that is to have the control of [an aspect of the program under review] in the areas brought back under my role (Interview with Auditee #6, 3 March 2004).

The following conversation with another line manager highlights the use of ANAO performance audits as a means of securing a greater share of funding within the Agency.

Auditee #2: The fact that an audit has been on the cards for a couple of years, that has been somewhat of a driver towards improving our business. If it hadn't have happened, in the area we're talking about if it was never scheduled to occur, the things that we're doing anyway may still have happened but I guess, behind the scenes, it's a good way of giving reason to changes within the organisation by saying well, look, we really have to improve it .. we've got an audit coming up, and it does tend to, to *(pause)*

Researcher: focus the mind?

Auditee #2: Focus! Yeah, yeah. It gives, you know, our area a priority within the organisation that may not have been there without [the] audit. While we might have continued to do the things and move towards improvement, it makes it much more of a higher priority because it's going to be, you know, tabled in Parliament eventually, and it will reflect on the organisation as a whole.

When audits are perceived as a threat to the program under review or to individual Agency staff, however, the empirical evidence suggests that more active forms of resistance than compromise are likely to occur. Consider, for example, the allegations of auditee misbehaviour, considered earlier in this chapter, which include abolishing or reorganising organisational components, conducting internal audits in areas of interest to the ANAO in an effort to second-guess it, and deliberately losing vital evidence. The auditee-participants also volunteered examples of auditee misbehaviour, including the following by an internal auditor.

People that are very experienced with dealing with auditors, if they get some young auditors into their area, you know, they can send them off on a little goose chase somewhere so that they think they're onto something that at the end of the day turns out to be quite minor and, you know, for the person responsible for that area, this may involve just deflecting them away from something that they really should have found (Interview with Auditee #5, 24 February 2004).

Further, noting that ANAO reports are read by the parliament and the PAC, another internal auditor claimed that:

[p]eople ... [will] do anything not to have to put up with any criticism from those angles (Interview with Auditee #7, 4 March 2004).

These actions and reactions are consistent with Oliver's avoidance/buffering tactic because they involve a deliberate attempt to reduce the extent to which the Agency is externally inspected. There was also evidence in the data of even more active forms of resistance, including the defiance tactics of dismissal, challenge and attack. Dismissiveness, for example, is revealed in the following extract from an interview with another internal auditor.

Anyone who's worked in the real world knows you don't walk around with a manual in your hand all the time, you just don't have time to do that. It's those sorts of things which are unrealistic. And, by any measure, we would have one of the best ... set-ups going and we've proved it more than anyone else, probably. And yet the ANAO took this view that, yes, it's all right but, there's a bit [missing] but they're all Mickey Mouse things. I don't think it added anything to the protection of the country or the budget or the government or anything else, frankly (Interview with Auditee #9, 8 March 2004).

An ANAO field auditor also spoke of the propensity for auditees to dismiss audit findings and to challenge the competence of ANAO staff.

I think, in terms of adding value, it's very difficult to convince perhaps an agency that feels that they are unique and special or very important in doing the special, unique things they do. They think it won't actually add any value because they say: "Oh, we're the experts, how can you help us? We've been doing this for 20 years, 10 years, 5 years, whatever. We know exactly what we're doing; we know everything about this area. What do you know about us?" (Interview with ANAO #5, 2 February 2004).

Also relevant to this discussion are the personal attacks on ANAO auditors and consultants, discussed in the previous section. Auditee defiance can also occur after performance audit reports have been finalised and tabled, evidence of which is found in Chapter 5 and in the following remarks, made by one of the PAC members who participated in this study.

There's still some departments that either reject recommendations or with qualifications that they don't see Audit as truly adding value. They think they're sticking their beak in where it doesn't belong. And say the same thing of [the PAC], quite frankly. And our results with those agencies are not as good as they are with others (Interview with PAC #1, 3 June 2004).

Yet, according to an ANAO executive, defiance tactics that involve public repudiation of audit findings can have unfortunate consequences for the offending agency.

Commonwealth Property Sales, for example, was one, where they just disagreed with every recommendation in the report, disagreed with the report. So you table in Parliament a disagreed report. And they did that, not out of, you know, an independent analysis of the work or the recommendations but basically because the Minister had said, we've got to fix the Audit Office and their way of fixing it was just to disagree with every one and everything we said. Well they soon learnt that putting a disagreed report in the parliament was worse than trying to, you know, work amicably and resolve the issue (Interview with ANAO #11, 18 March 2004).

Arguably, the ease with which I gained access to the Agency, noted in Chapter 2, can also be explained as a form of defiance strategy, with the CEO perhaps perceiving the study as a means of publicising criticisms of ANAO performance audit outside of the parliament's normal processes of scrutiny and control.

Evidence of the most active form of resistance, namely the manipulation tactic of control, was also revealed in the data. For example, noting the existence of friction between his staff and the audit team, a line manager referred to an earlier audit in which "people had



tried to choreograph audits and script their interaction with people” (Interview with Auditee #3, 12 December 2003). Attempts to control audits can also be seen in the allegations of ministerial interference in audit processes, which were considered previously in this chapter. So, in summary, when viewed through Oliver’s lens, the relationship between audit and audited appears to be characterised by varying levels of auditee resistance, in which auditees submit reluctantly to audit and take actions as necessary to minimise the its political impact. Nonetheless, the data also reveals signs of opportunistic behaviour among Agency staff, with individual managers using audits, and the threat of audit, to secure a larger share of resources for their programs.

## **7.5 Summary and conclusion**

This chapter has delved into the responses of auditees, on the one hand, and auditors and their proponents, on the other, to ANAO performance audit and to each other. Its aim in so doing is to seek understanding of the mixed results about the credibility of the function that were reported in Chapter 6. My analysis of the participants’ responses to one another reveals that the auditors, consultants and PAC members who participated in this study, all of whom had a vested interest in the survival and growth of performance audit, were largely positive about it and comfortable in its capacity to deliver value. In contrast, the auditee-participants, who had a vested interest in protecting themselves and their agency, were often negative towards ANAO performance audit and resistant to it, especially during the early stages of the audits in which they were involved.

The empirical evidence indicates that there are many factors besides organisational affiliation (albeit connected with it) that might influence a stakeholder’s response to ANAO performance audit, including ignorance, outcome uncertainty, the myths that circulate within the organisation about the ANAO or the auditee as the case may be,

internal agency pressures, divided loyalties and the alleged politicisation of the APS. Further, viewed through the lens of Oliver's typology of strategic responses, the empirical findings indicate that their responses can take multiple forms, from compliance to manipulation, driven by individual circumstances and prejudices. This suggests that the second research question posed by this study, namely the credibility of ANAO performance audit at the level of micro-practice, may have no definitive solution independent of the context in which its credibility is assessed. Yet, there other limitations to its credibility identified in Chapter 6 that are not so easily attributable to contextual factors, such as the impairment to personal independence created by the mobility of employment between the ANAO and its auditee agencies and a lack of epistemic independence. These points are explored further in the next and concluding chapter of this thesis.

## CHAPTER 8

### THE CREDIBILITY OF ANAO PERFORMANCE AUDIT

*The question is, credibility in whose eyes? Are you looking at the credibility in terms of its major client, the parliament, where you'd probably have to say that it is seen as a credible institution and there's a strong attachment to the whole concept of, yes, we need an independent auditor. Or are you looking at credibility in terms of the auditees, OK, and that does vary significantly across the public sector and is a function of the attitude of the leadership within departments and agencies (Interview with Consultant #2, 26 March 2004).*

#### 8.1 Introduction

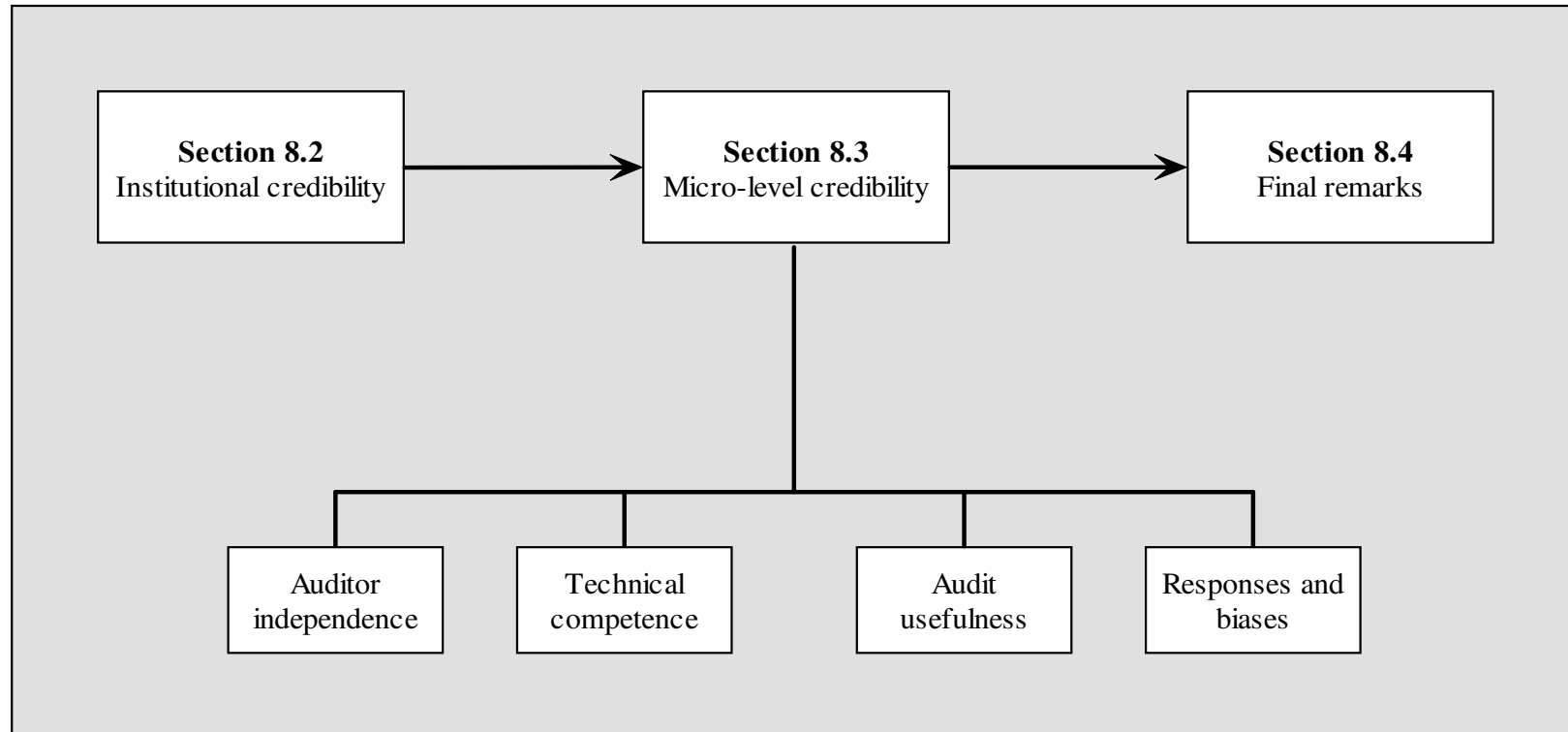
The central theme of this thesis is the credibility of ANAO performance audit and the aims have been twofold. The first was to explore the transformation of ANAO performance audit from an ambitious idea to a credible function of state audit, and the second, to establish the degree to which the function is regarded as credible by those most intimately involved in it at the level of micro-practice. With performance audit portrayed by INTOSAI, the accounting profession and much of the literature as an extended form of audit, the study takes the view (see Chapter 1) that performance audit credibility can be established with reference to three criteria drawn from the traditional (financial) audit

literature, namely auditor independence, technical competence and audit usefulness. Birnbaum and Stegner's (1979) theory of source credibility also informs this argument.

In Chapter 2, which identifies the theoretical and methodological positions of this study and explains its research design, I argue the case for using a theoretical lens to reduce complexity and help make sense of the data. The lens chosen for this purpose is the new institutionalism (see Chapter 3), which is employed throughout this study to explore variously the institutional environment of ANAO performance audit (Chapter 4), its institutionalisation and achievement of institutional credibility (Chapter 5), its degree of conformance (isomorphism) with the study's audit credibility criteria, which I conceptualise as the rationalised myths of audit (Chapter 6), and the personal and contextual factors that influence stakeholders' responses to ANAO performance audit and colour their perceptions of its credibility (Chapter 7).

The main purpose of Chapter 8 is to review the study's findings and reflect on their significance for its central theme. The rest of the chapter is structured as follows (see Figure 8.1). The next section (Section 8.2) addresses the institutional credibility of ANAO performance audit and the following section (Section 8.3), its credibility at the level of micro-practice to those who deal with the function on an everyday basis, including their responses to ANAO performance audit and to each other. The chapter (and this thesis) then concludes in Section 8.4 with some final remarks about the credibility of the function and the broader implications of this study, together with an acknowledgement of its limitations and suggestions for further research.

**Figure 8.1: The themes of Chapter 8**



## **8.2 Institutional credibility**

Chapter 5 is focused at the macro level on the institutional credibility of ANAO performance audit and, in particular, on the achievement of its credibility, which I argue was achieved some time during the early to mid 1990s. To assist in telling the story of this achievement, for which I draw on numerous archival sources, I conceptualise the evolution of ANAO performance audit as a process of institutionalisation, with Barley and Tolbert's (1997) four-stage model of institutionalisation providing the framework for my analysis.

The first stage of Barley and Tolbert's model is referred to as encoding and, in Chapter 5, this is explored at two levels: first, the pathway to legislative change that resulted in the 1979 extension of the Auditor-General's official mandate to performance audit, and second, the decisions and tensions surrounding the introduction of the function into the ANAO itself. The chapter argues that the troubles that ANAO performance audit was to encounter during the second (enactment) stage of its institutionalisation arose in part because of three decisions made during its initial encoding. The first is the Fraser Government's decision to adopt the RCAGA's (1976) recommendations on efficiency audit but not the public sector reforms that made sense of them. Although the executive's support for these recommendations was greeted with enthusiasm by the parliament and others, the function's implementation created confusion, distrust and resistance within the APS. The second decision is one made by Auditor-General Craik and the Head of the EAD, John Jones, to proceed immediately with large-scale efficiency audit projects, contrary to the advice of the RCAGA, the parliament and the WPOEA. The result was a series of unwieldy audits that took years to complete. The third problematic decision is also one made by Craik and Jones, this one being to scope efficiency audits as far as possible towards the effectiveness end of the audit continuum, despite the lack of a clear

mandate to do so. This was to become a major source of contention between the Auditor-General and his auditees, a matter of deep concern for the Expenditure Committee and the PAC, and thus a significant obstacle to the achievement of institutional credibility.

The second stage of Barley and Tolbert's (1997) model of institutionalisation is referred to as enactment and, for the institutionalisation of ANAO performance audit, this is bound up with the EAD's short, tumultuous history. Chapter 5 argues, however, that although its efforts were ridiculed by many, including Craik's successor, Keith Brigden, the EAD was in fact reasonably successful (that is, technically competent), not only in terms of the quality of its findings and recommendations but also in its ability to develop a workable approach to the conduct of performance audit. Nonetheless, the controversies surrounding the EAD's audits exposed the ambiguities associated with the function as well as the vulnerability of the Auditor-General and his staff to executive retribution, issues that were to continue to provide challenges for the achievement of institutional credibility well into the next stage of its institutionalisation. In Barley and Tolbert's (1997) model, this is referred to as revision/replication.

The revision/replication stage of institutionalisation is characterised by three factors that influenced the progress of ANAO performance audit towards institutional credibility. The first factor relates to the efforts of three auditors-general (Brigden, Monaghan and Taylor) to align ANAO performance audit with their respective visions of the function, while at the same time dealing with the reactions of hostile governments. It also features the PAC's landmark inquiry into the Auditor-General and his office (Australia, JCPA, 1989) which, among other things, recommended a range of legislative reforms intended to strengthen the Auditor-General's independence and the PAC's role as the guardian of the ANAO. It was during this stage, too, that the Hawke Government's program of public

sector reforms began to take effect, providing the long-awaited rationale for performance audit but also creating problems for public accountability and state audit, particularly in relation to the corporatisation of state agencies and the emergence of public/private sector commercial arrangements. These matters remained problematic even after ANAO performance audit achieved the last stage in its institutionalisation, referred to in Barley and Tolbert's (1997) model as objectification/externalisation, and became a generally-accepted, credible function of state audit.

Chapter 5 identifies five indicators of the successful transition of ANAO performance audit to its fourth and final stage of institutionalisation, and the achievement of its institutional credibility, a process which arguably occurred during the early to mid-1990s. The first indicator is the emerging propensity of the parliament to comment on audit reports at the time of their tabling, often with the intention of challenging the executive, instead of waiting for their review by a parliamentary committee. While the parliament's interest was no doubt fueled by the incumbent auditor-general's confrontational style, its typically unquestioning reliance on his reports suggests that they were regarded as a credible source of information. The second indicator of its successful transition is found in the increasing proportion of recommendations agreed to by auditees, indicating a level of acceptance and/or understanding of the function that was missing prior to the emergence of NPM. The third indicator is that, since the mid-1990s, very few parliamentary committees have passed judgement on issues of audit quality, this despite the occasions reported in Chapter 5 when the executive questioned the ANAO's competence on the floor of the parliament. The fourth, albeit indirect, indicator is the Australian accounting profession's efforts to capture performance audit within its authoritative standards, signalling its acceptance of the function as a professionally-recognised, credible audit activity. The fifth, and final, indicator of its successful



transition lies in the fact that Taylor's script for ANAO performance audit, including its organisational structure, staffing profile and methodology, was adopted largely unchanged by his successor, Pat Barrett. This lends support to the view that, by the time Barrett took office in 1995, the institutionalisation of ANAO performance audit was effectively complete, with the function at last taken for granted among institutional stakeholders as a credible feature of Australia's modern public accountability framework.

### **8.3 Micro-level credibility**

The second part of this thesis, dealing with the credibility of ANAO performance audit at the level of micro-practice, is based on evidence gathered by interview and observation, which I obtained during an extended period of immersion in the field and which I analysed using a coding process borrowed from grounded theory. What emerged from this ethnographically-informed process of discovery were two streams of ideas of relevance to the study's central theme, one dealing directly with the audit credibility criteria identified in Chapter 1 and the other with auditor-auditee relations and biases. In this section, I review the study's findings, firstly in terms of the audit credibility criteria that comprise the first stream of ideas, and then in terms of the relations and biases that comprise the second stream of ideas.

#### **8.3.1 Auditor independence**

Chapter 6 identifies three sub-themes linked to the notion of auditor independence, namely the importance of independence, obstacles to independence, and alternative understandings of independence. The study's auditor-participants and their proponents were strongly committed to the notion of auditor independence and confident in the strength of the Auditor-General's statutory powers in this regard. Auditee-participants recognised its importance, too, especially for the parliament, although a couple of

participants questioned its value to the APS. The empirical evidence reveals, however, the existence of numerous obstacles to independence. Often mentioned, for example, were problems of access to audit evidence created by a range of auditee interventions. Even though the Auditor-General has power under the *Auditor-General Act 1997* to direct persons to produce oral, written and documentary evidence, Chapter 6 reveals a reluctance among the study's auditor-participants to use this power, which they regard as the Auditor-General's "ultimate weapon". The chapter also suggests the existence of risks to the personal independence of ANAO staff, posed by factors such as family relationships with auditee agencies, strongly-held personal values and beliefs about matters under investigation, and the mobility of employment between the ANAO and its auditee agencies.

Another obstacle to independence that I argue in Chapter 6 is the level of discretion and interpretation bound up with every aspect of the performance audit process, from the selection of audit tasks to the findings and recommendations reported to the parliament. Moreover, an auditor-general's personal style can influence perceptions of auditor independence, with cooperative auditors-general seen as too cosy with the executive and its agencies and confrontational auditors-general dismissed as "feral" and politically-biased. The chapter also reveals evidence of funding constraints, suggesting resource independence may be an ongoing issue for state audit. It is notable that one of Barrett's last acts as Auditor-General (Lewis, 2005) was to complain to the executive about cuts to his resources. Notwithstanding these potential impairments to independence, however, it is interesting that some auditee-participants saw the notion of auditor independence itself as problematic, especially for auditor-auditee relations.

The third sub-theme linked to auditor independence focuses on the differing conceptions of the construct held by the study's stakeholder-participants. For example, whereas the auditor-participants spoke of auditor independence in traditional terms of freedom of access and reporting, the auditee-participants tended to equate it with notions of fairness and objectivity. For these participants, independence was about the willingness of ANAO auditors to record and report both positive and negative findings and to approach audits without preconceived ideas. For a PAC member, however, an independent auditor-general is one who remains apolitical. These differing conceptions of what is generally accepted as the cornerstone of auditing exemplify Birnbaum and Stegner's (1979) notion of judge bias, which argues that the standpoint of the individual user needs to be taken into account when establishing audit credibility.

### **8.3.2 Technical competence**

Chapter 6 identifies two sub-themes of relevance to technical competence, one dealing broadly with the performance auditor's toolkit, a term that I use in this study to refer to the combination of knowledge, skills and attributes required to implement the function, and the other with its technical challenges. The most important skills to emerge from the data are generic skills, especially analytical, people and communication skills, a finding that supports research reported elsewhere in the literature (see, for example, Radcliffe, 1999). Yet, the empirical evidence also reveals differences among the study's participants in their understandings of these skills. For the auditors and consultants, for example, "people skills" referred to their ability to coerce auditee staff to cooperate, while for auditees it meant social skills. Some auditor-participants also spoke of the importance of investigation skills and an interest in public administration as well as personal attributes such as persistence and self-confidence. None of the participants, however, referred to a specific body of core knowledge or skills that might be used to associate a

performance auditor with a distinctive professional discipline. In particular, no participant mentioned the need for familiarity with the norms and values of NPM, which arguably provides the rationale for performance audit. This does not necessarily deny the significance of NPM values for the participants. Rather, from my conversations with them on the issue of “generally accepted management principles”, I formed the view that NPM norms and values were largely self-evident to the study’s stakeholder-participants, taken for granted as the way things are and ought to be.

The second sub-theme dealing with technical competence is focused on the challenges that ANAO performance auditors face in conducting audits. Included among these are the access issues considered previously as part of auditor independence, highlighting the interrelated nature of these audit credibility criteria. The other challenges to technical competence that I identify in Chapter 6 are threefold: first, the complexity of modern government structures, programs and administrative arrangements; second, the lack of timeliness of performance audit reports; and, third, problems of recruitment, training and knowledge transfer among performance audit staff. On the whole, auditee-participants expressed more negative views about technical competence than the auditors and consultants, who recognised the challenges of audit but were confident of their capacity to handle them. The timeliness issue, however, was seen as problematic for auditees, auditors and consultants alike, although there were marked differences in views among the participants as to the causes of delay. An auditee-participant, for example, attributed the problem to incompetence and laziness while, for a consultant, it resulted from the ANAO’s overly-bureaucratic quality assurance processes. Meanwhile, auditor-participants blamed the stalling tactics of auditees, especially when sensitive audits attract the interest of ministers and senior officials.

The third set of challenges for technical competence, dealing with recruitment, training and knowledge transfer, was of concern primarily to the auditor-participants, some of whom drew attention to the introverted personality style with which ANAO auditors are purportedly endowed, a view that seemed to have almost mythical status within the organisation. These various challenges notwithstanding, there was a strong sense of commitment to the function among the auditor and consultant participants and a firm belief in the value of their work, a finding that is similar to one reported in Lapsley and Pong (2000). Yet Lapsley and Pong also argue that the everyday practice of performance audit is problematic and the findings of the present study provide support for this view as well. Indeed, my overall conclusion on technical competence is that, despite the progress that the ANAO has made over the years in improving and consolidating its approach to performance audit, there remain significant issues of technical competence at the micro level that impair its perceived credibility, even from the standpoint of the auditors themselves.

### **8.3.3 Audit usefulness**

The third audit credibility criterion explored in Chapter 6, namely audit usefulness, is represented by a single theme, the discourse on adding value. Most auditor-participants referred in some way or another to the notion of adding value, some from a macro-level perspective and others from a more personal, micro-level perspective. Further, the empirical evidence suggests that while reporting to the parliament is perceived as a source of value, so too is the actual process or even the threat of audit. Yet, auditee-participants thought there was little personal value to be gained from an ANAO performance audit, which they regarded as focused predominantly on the parliament's interests. In this respect, Chapter 6 reveals mixed evidence about an issue reported elsewhere in the literature (see, for example, Radcliffe, 1999; Morin, 2003; and Sharma, 2007) regarding

the potential for role conflict between public accountability and performance improvement objectives. Some participants recognised this as problematic for the Auditor-General while others did not. In my view, however, the empirical evidence suggests two factors that have the potential to create role conflict for auditors-general. The first is the parliament's apparent lack of interest in matters of public management improvement. An auditor-general seeking a higher public profile as a watchdog of public accountability might be tempted to focus on 'gotchers' and 'juicy bits' rather than public management improvement, thus improving his or her standing with the parliament at the expense of the auditor-auditee relationship. The other factor that has potential to cause role conflict is the ANAO's involvement in the production of Better Practice Guides, a practice that is argued elsewhere in the literature (see, for example, Gendron *et al*, 2001) to be a form of management consulting and thus an impairment of auditor independence. For the study's stakeholder participants, however, the contribution of Better Practice Guides to performance improvement and auditor-auditee relations appeared to outweigh the risks to auditor independence.

The findings reported in Chapter 6 suggest that, when assessed against the criteria of auditor independence, technical competence and audit usefulness, the credibility of ANAO performance audit is compromised in a number of important respects. Yet, there were marked differences in views among the study's stakeholder-participants, especially between the auditors and their proponents, on the one hand, and the auditee-participants on the other. This disparity of views, and the range of emotions that apparently underpinned them, suggest the need for further analysis of the study's empirical data in order to understand the motivations and biases that account for their views. This analysis is undertaken in Chapter 7, which focuses on the second stream of ideas to emerge from the empirical data.

#### **8.3.4 Responses and biases**

Chapter 7, which deals with Birnbaum and Stegner's notion of judge bias, is structured around three themes: auditee responses to the ANAO; auditor responses to auditees; and an analysis of these responses through the lens of Oliver's (1991) typology of strategic responses. The auditees' responses to the ANAO feature three distinguishable sets of emotions: first, fear and suspicion, embracing emotions ranging from distrust to paranoia; second, animosity and censure, encompassing dislike, criticism, cynicism and contempt; and, third, appreciation and respect, covering the more positive responses to performance audit to emerge from the data. A range of factors are arguably implicated in the auditees' responses, including ignorance of the objectives and processes of performance audit, the existence of organisational myths about the ANAO's role and the behaviour of its auditors, and uncertainties regarding audit objectives and likely outcomes. Adding to their fear was a belief that adverse audit findings would have unfortunate consequences for their employment in the agency, with senior staff employed on fixed term contracts particularly at risk. Yet, Chapter 7 also reveals that auditee staff became more positive about the process as audits progressed, with audits seen as useful for serving sectional interests within the agency.

In contrast to the negativism of the auditee-participants, the auditor and consultant-participants were mostly positive about ANAO performance audit, exhibiting pride in their work and confidence in the significance of their role. They revealed a range of emotive responses, however, with respect to auditee staff. These included feelings of determination, resilience, frustration and stress in response to auditee opposition, distrust and scepticism regarding auditee tactics, and sympathy and understanding for the plight of agency management and staff. Above all, the auditors and consultants revealed a

determination to report to the parliament as they saw fit, a determination that could conceivably impair objectivity, especially when fueled by auditee aggression and attack.

Chapter 7 then appeals to Oliver's (1991) typology of strategic responses to provide a fresh perspective on the reactions of the auditee-participants to ANAO performance audit, based on the views expressed by the auditees themselves and by others. When I examined their responses through Oliver's lens, I found evidence to suggest the presence of varying degrees of resistance to the function. The least active response was the compromise tactic of pacification, evident in the auditees' grudging willingness to cooperate with the audit team. Another compromise tactic, bargaining, was also identified, especially in the auditor-auditee negotiations over audit findings. The empirical (and historical) evidence suggests, however, that audits that are perceived as especially politically sensitive and, thus, a significant threat to an agency and its minister can provoke more active forms of resistance, including avoidance, defiance and manipulation.

Chapter 7 highlights the complexity of the auditor-auditee relationship, a finding that may well be applicable to the everyday practice of other forms of audit, including financial audit, in both the public and private sectors. However, the conflicting positions adopted by auditor and auditee, and their often negative views of one another, suggest that the auditee-participants' responses need to be treated with caution when seeking to assess the credibility of ANAO performance audit. While none of the participants were in a position to offer a disinterested perspective on its credibility, the auditee-participants in particular had strategic incentives for denigrating the ANAO and its performance auditors, whether or not they believed their criticisms to be valid.



## 8.4 Final remarks

The empirical findings of this thesis raise a number of concerns about the credibility of ANAO performance audit, especially at the level of micro-practice. This is so, notwithstanding the achievement of institutional credibility argued in Chapter 5 and the self-interested nature of the auditees' responses to the function, noted in Chapter 7. Of the various obstacles and challenges discussed in Chapter 6, five issues arguably stand out as being particularly problematic for ANAO performance audit. The first issue is the mobility of employment opportunity between the ANAO and its auditee agencies, which the Australian accounting bodies (see, for example, CPA Australia, 2008, pp. 1168-70) would regard as a significant self-interest threat to auditor independence. The second is the apparent ability of auditee staff to delay, manipulate, and/or frustrate the ANAO's evidence-gathering process, despite the independence provisions of its legislation. The Auditor-General's effectiveness in providing a reliable and useful audit product requires full and free access to Commonwealth records and premises (JCPAA, 2001, p. 27) and the full cooperation of its staff, and so this finding has serious implications for performance audit credibility across all three of its credibility criteria.

The third issue that is problematic for ANAO performance audit is the absence of a clearly-defined and articulated core of knowledge on which performance auditors can appeal for audit criteria, equivalent to the accounting principles and standards that provide the criteria for financial audit. Further, this lack of an identifiable knowledge base means that all aspects of the audit process demand a high level of judgement and interpretation, well above that which is normally associated with the financial audit discipline. The ability to be and be seen to be impartial and capable of forming a view independent of the interests of the executive (see, for example, Everett, 2003) can be compromised when audit judgements require extensive interpretation of events. This lack of epistemic

independence (Power, 1997, p. 133) is also a problem for performance audit because it limits the ability of practitioners to develop a unique professional identity, which in turn creates difficulties for staff recruitment, training and development, and denies them an important means of withstanding management pressure in disputes over audit findings and recommendations.

The fourth issue of concern for ANAO performance audit credibility is the ANAO's involvement in the production of Better Practice Guides. This has the potential to impair auditor independence for the same reasons argued in Gendron *et al* (2001), namely the difficulties bound up with providing a purportedly independent audit opinion on the auditor's own recommended structures, systems and processes. The fifth and final issue of concern is one that has implications for the ANAO as a whole. This is the ongoing problem of resourcing that the study identified in the course of its investigations. A lack of resources puts the credibility of ANAO performance audit at risk because it limits the Auditor-General's effectiveness as an instrument of scrutiny on behalf of the parliament, especially in situations where the Auditor-General's obligatory financial audit responsibilities must take priority.

Despite the various problems identified in this study, I need to stress that I do not regard ANAO performance audit as devoid of credibility, even at the level of micro-practice. In Chapter 1, I argue that credibility is comprised of three factors, namely auditor independence, technical competence and audit usefulness, each of which is a relative rather than an absolute construct. It follows, therefore, that a function like performance audit can be perceived as characterised by degrees of credibility, which can vary over time as well as between different audit engagements and different types of auditee agencies. Further, it is not my intention to denigrate the efforts of the audit team who I

observed during the course of this study. Its members were tenacious investigators, their technical competence evidenced by the (grudging) respect they earned from auditee staff, who commented on their ability to come to grips quickly with complex subject matter and identify weaknesses in program administration requiring auditee attention. It is also notable that the auditors were mindful of their rights of access and reporting under the audit legislation and prepared to insist on them, regardless of the auditee antagonism that this might arouse. Yet, a variety of obstacles were encountered in their efforts to obtain audit evidence, including attempts by the auditee to “manage” the audit process, delays in the provision of requested documents and reports, and alleged obfuscation on the part of auditee staff. Whether problems such as these are amenable to reform or merely an inevitable part of the auditor-auditee relationship must remain the subject for further research. On the whole, the main conclusion that I draw from the findings of this study is that, if ANAO performance audit is indeed a form of auditing and not a misnomer as Barzelay (1997, p. 241) has suggested (see Chapter 1), then there are aspects of its credibility, as assessed against the criteria of auditor independence, technical competence and audit usefulness, that require attention.

This thesis has the limitations normally associated with qualitative research, including its specificity to the research site, its “ill-defined and inconclusive conclusions” (Laughlin, 1995, p. 80, Table 1), its limited validity and verifiability, and its reliance on researcher interpretation and rich description which, for Power (1991, p. 337), gives ethnographic accounts “an anecdotal or (worse) journalistic quality”. Proponents of ethnography might criticise this study as well for its use of a theoretical lens and its openness to change in the status quo. My ability to reach a deep, ethnographic understanding of the subject matter is also limited by my adoption of an “observer-as-participant” role (Vinten, 1994; see also Chapter 2) rather than a more intensive form of contact with the study population. The

study does not claim to belong strictly in the ethnographic research tradition, however, but rather is associated loosely with Laughlin's (1995) middle-range thinking approach to research.

Notwithstanding its limitations, this thesis makes an important contribution to the literature in at least four areas of research interest. The first area deals, of course, with the literature on performance audit itself, with the findings of this study suggesting the existence of a gap between institutional expectations of performance audit and its implementation in the field. In identifying aspects of its credibility that require attention, the study supports the findings of Power (1997) and Lapsley and Pong (2000), among others, that the everyday practice of performance audit is problematic. The second area of research interest to which this study makes an important contribution is the general audit literature. In particular, the study highlights the complexity of the auditor-auditee relationship, an issue that has attracted little attention in the literature at the level of micro-practice. The third area of research interest relates to the study's research design, which demonstrates the power of ethnographically-informed research for exploring audit phenomena in the field. The fourth and final area of interest pertains to the study's appeal to the new institutionalism for its theoretical lens. This study is of particular relevance to scholars of the new institutionalism because it provides a rare opportunity to demonstrate the value of Barley and Tolbert's (1997) model for exploring the institutionalisation of an emerging institution.

The study's findings suggest a number of avenues for further research. One relates to the comparative credibility of performance audit in other state audit jurisdictions and, in particular, whether they suffer from similar problems as those noted in this study. The feasibility of articulating a professional core of knowledge and, indeed, defining a unique

professional identity for performance audit would also be an area worthy of scholarly attention. Another area for further research is the relevance of auditor independence and other auditing principles and standards for performance audit, the answer to which has a bearing on whether this contested, socially-constructed practice is properly located within the realm of audit. Finally, the auditor-auditee relationship and its impact on everyday practice is deserving of attention in the wider audit literature.

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## APPENDIX A

### TABLE OF INTERVIEW PARTICIPANTS

Code name	Type	Cluster #	Date(s) of interview
ANAO #1	Field auditor	1	25/11/03
ANAO #2	Field auditor	1	25/11/03
ANAO #3	Field auditor	1	9/12/03 and 19/4/04
ANAO #4	Field auditor	1	14/1/04
ANAO #5	Field auditor	1	2/2/04
ANAO #6	Field auditor	1	10/3/04
ANAO #7	Field auditor	1	25/3/04
ANAO #8	ANAO executive	3	8/3/04
ANAO #9	ANAO executive	3	28/4/04
ANAO #10	ANAO executive	3	17/3/04
ANAO #11	ANAO executive	3	18/3/04
ANAO #12	ANAO executive	3	24/5/04
ANAO #13	ANAO executive	3	5/10/05
ANAO #14	ANAO executive	3	5/5/04
Auditee #1	line manager	1	31/10/03
Auditee #2	line manager	1	18/11/03 and 21/4/04
Auditee #3	line manager	1	12/12/03
Auditee #4	line manager	1	27/1/04
Auditee #5	internal auditor	1	24/2/04
Auditee #6	line manager	2	3/3/04
Auditee #7	internal auditor	2	4/3/04
Auditee #8	line manager	1	16/3/04
Auditee #9	internal auditor	2	8/3/04
Consultant #1	ANAO consultant	2	24/2/04
Consultant #2	ANAO consultant	2	26/3/04
Consultant #3	ANAO consultant	2	15/4/04
Consultant #4	ANAO consultant	2	15/4/04
Consultant #5	ANAO consultant	2	21/4/04
Consultant #6	ANAO consultant	2	10/6/06

<b>Code name</b>	<b>Type</b>	<b>Cluster #</b>	<b>Date(s) of interview</b>
PAC #1	PAC member	3	3/6/04
PAC #2	PAC member	3	22/6/04

**APPENDIX B**

**SCHEDULE OF OBSERVATIONS**

<b>Ref. No.</b>	<b>Date observed</b>	<b>Location</b>	<b>Duration (hours)</b>	<b>Type of activity observed</b>
1	15/9/03	Canberra	.5	Entry interview
2	18/9/03	Melbourne	8	Audit fieldwork
3	29/9/03	Queanbeyan	2.25	Audit fieldwork
4	30/9/03	Goulburn	4	Audit fieldwork
5	30/9/03	Goulburn	4	Audit fieldwork
6	30/9/03	En route to Wagga Wagga	3	Audit team discussions of findings
7	1/10/03	Wagga Wagga	4	Audit fieldwork
8	2/10/03	Wagga Wagga	4	Audit fieldwork
9	2/10/03	Canberra	.75	Audit fieldwork
10	15/10/03	Canberra	1.5	Audit fieldwork
11	17/10/03	Canberra	1.5	Audit fieldwork
12	17/10/03	Canberra	1.5	Audit fieldwork
13	20/10/03	Hobart	2	Audit fieldwork
14	20/10/03	Hobart	2	Audit fieldwork
15	21/10/03	Hobart	3.5	Audit fieldwork
16	21/10/03	Hobart	2	Audit fieldwork
17	22/10/03	Hobart	3.5	Audit fieldwork
18	27/10/03	Darwin	3	Audit fieldwork
19	27/10/03	Darwin	3	Audit fieldwork



<b>Ref. No.</b>	<b>Date observed</b>	<b>Location</b>	<b>Duration (hours)</b>	<b>Type of activity observed</b>
20	28/10/03	Darwin	3.5	Audit fieldwork
21	28/10/03	Darwin	3	Audit fieldwork
22	29/10/03	Darwin	3	Audit fieldwork
23	30/10/03	Perth	3.5	Audit fieldwork
24	30/10/03	Perth	2.5	Audit fieldwork
25	6/11/03	Canberra	1	Audit fieldwork
26	7/11/03	Canberra	1.25	Audit fieldwork
27	19/11/03	Canberra	1.5	Audit fieldwork
28	19/11/03	Canberra	1.75	Audit fieldwork
29	20/11/03	Canberra	1.5	Audit fieldwork
30	25/11/03	Canberra	1.75	Audit fieldwork
31	28/11/03	Canberra	1.5	Audit fieldwork
32	3/12/03	Canberra	2	Audit fieldwork
33	9/12/03	Canberra	1.5	Audit fieldwork
34	12/12/03	Canberra	1	Audit fieldwork
35	4/2/04	Canberra	1.5	Audit fieldwork
36	10/2/04	Canberra	1	Audit fieldwork
37	5/3/04	Canberra	1.5	ANAO management briefing on audit findings
38	11/3/04	Canberra	2	Informal Agency briefing on audit findings
39	26/3/04	Canberra	2	Exit interview
40	4/4/05	Canberra	2	JCPAA hearing
Total Hours:			94.25	

## **APPENDIX C**

### **COMMUNICATING WITH PARTICIPANTS**

In describing the design of this study of ANAO performance audit credibility, Section 2.4 noted that the study's interview participants were sent a letter prior to interview, describing the study, specifying the topics of interest and explaining their rights as voluntary interview subjects. The participants were also requested to complete a consent form, acknowledging their understanding of their role in the research project and the conditions under which they agreed to participate in it. A sample letter and consent form are provided on the following pages.



[Date]

Dear .....,

**Ref: Research Project on Performance Audit**

The purpose of this letter is to seek your consent to be interviewed as part of a research project that I am currently undertaking for my doctoral studies through the University of Wollongong.

The working title of this project is **The Credibility of Performance Audit: A Study of Performance Audit at the Australian National Audit Office**. Its aim is to explore the contemporary role, contribution and credibility of performance audit and, in so doing, achieve positive outcomes for the ANAO and its stakeholders. I want to stress unequivocally that my research is focused solely on the performance audit process and how it impacts upon the individuals involved in that process. The study has no interest whatsoever in the substance of any audit currently in progress.

The project involves in-depth interviews with a range of stakeholders including past and present staff of the ANAO and its client agencies, an examination of publicly-available reports and transcripts, and a case study featuring one of the performance audits from the Auditor-General's 2003/2004 work program. The Auditor-General, Mr Pat Barrett, and [the CEO of the Agency] have kindly given their consent for me to observe meetings and other activities associated with one of the audits in the 2003/2004 audit work program, in order to assist my understanding of the performance audit process.

From the in-depth interviews, I hope to gain an appreciation of the experiences of individual auditors, auditees and other stakeholders with performance audit, the role they see performance audit performing now and in the future, the kinds of day-to-day challenges encountered, and the changes to policies, processes, structures, relationships, staffing, training etc that might enhance its value, albeit in an ideal world.

I am hoping that you will grant me some time to discuss these issues. We will need to meet for about an hour in the first instance, but may need to have one or two follow-up meetings, depending on the issues raised. The times and places of these meetings are entirely at your convenience.

It is an ethical requirement of the University of Wollongong that I obtain your written consent to participate in this study. If you do agree to take part, I would be grateful if you could complete the attached consent form. I will collect it at our first meeting, about which I will be in contact in the near future.

Please note:

- your participation in this research is voluntary and you may withdraw from the study at any time, by email to the address given below;
- you may view your transcript(s) of interview, and may amend any part as you see fit;
- your right to confidentiality, anonymity and privacy will be respected at all times;
- should I wish to quote something that you have said verbatim in any presentation or published work based on this study, I will identify you only by code number (for example, Respondent A1, the A denoting that you work for the ANAO) or agreed pseudonym.

If you have any matters or concerns you wish to raise about this project, please feel free to make contact with me at any time.

Please see print copy for image



Finally, if you have any concerns or complaints about the way this research is conducted, please contact the Complaints Officer, Human Research Ethics Committee, University of Wollongong, on 02 4221 4457.

Your sincerely,

Please see print copy for image



Margo Wade  
PhD candidate  
University of Wollongong



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The Credibility of Performance Audit: A Study of Performance Audit at the ANAO: A research study by Margo Wade, PhD Candidate, University of Wollongong

### **Consent Form**

I have read and understand the information sheet attached to this form and hereby give my consent to participate as an interviewee in the above-named research project.

I give my consent subject to the following conditions:

- my participation in this research is voluntary and I may withdraw from the study at any time.
- I may view my transcript(s) of interview, and may amend any part as I see fit;
- my right to confidentiality, anonymity and privacy is respected at all times;
- should the researcher wish to quote something that I have said verbatim in any presentation or published work based on this study, I will be identified only by code number or agreed pseudonym.

I understand that I can withdraw from the study by written advice to the researcher at the

**Please see print copy for image**

If I have any concerns or complaints about the way this research is conducted, I can contact the Complaints Officer, Human Research Ethics Committee, University of

**Please see print copy for**

(Signed):

(Participants' name):

(Date)

## **APPENDIX D**


### **HAWKE LABOR GOVERNMENT REFORMS**

#### **Improving the performance of the Public Sector**

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(Australia, House Standing Committee on Finance and Public Administration, 1990, p. 9)

**APPENDIX E**

**MONITORING THE ANAO'S RESOURCES**

The following extract from the Parliamentary Hansard is intended to illustrate the PAC's role in monitoring the ANAO's resources.

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Please see print copy for image (Australia, House, 11 May 2004, p. 28163).

**APPENDIX F**  
**THE PAC'S STATUTORY DUTIES**

Under Section 8 of the *Public Accounts and Audit Committee Act 1951*, the PAC's duties are:

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## **APPENDIX G**


### **EXAMPLES OF RECENT PAC REPORTS**

<b>Report no.</b>	<b>Date</b>	<b>Title</b>
n/a	n/a	Inquiry into financial reporting and equipment acquisition by the Department of Defence and Defence Materiel Organisation (lapsed on the prorogation of the 41 <sup>st</sup> Parliament (15/10/2007)
403	22/6/2005	Indigenous Law and Justice Inquiry
399	1/4/2004	Management and Integrity of Electronic Information in the Commonwealth
395	20/8/2003	Inquiry into the Draft Financial Framework Legislation Amendment Bill
391	18/9/2002	Review of Independent Auditing by Registered Company Auditors
388	19/6/2002	Review of the Accrual Budget Documentation
386	27/9/2001	Inquiry into the Auditor-General Act 1997
379	2/11/2000	Contract Management in the Australian Public Service
374	16/3/2000	Review of Financial Management and Accountability Act 1997 and the Commonwealth Authorities and Companies Act 1997
372	16/2/2000	Corporate Governance and Accountability Arrangements for Commonwealth Government Business Enterprises
369	30/6/1999	Australian Government Procurement
360	24/6/1998	Internet Commerce - To buy or not to buy?

**APPENDIX H**

**THE EAD'S AUDITS**

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(Adapted from Australia, JCPA, 1986, p. 18)

## APPENDIX I

### REPORT 296 RECOMMENDATIONS

Rec. no.	Recommendation	Auditor-General's response	Government's response
11	New Commonwealth audit legislation maintain the Auditor-General's authority to: undertake large and small performance audits; access Commonwealth agencies and report the results of performance audits.	Supported	Accepted – appropriate provision to be made in the new audit legislation.
16	The funding of efficiency audits be based on the following four principles, which would be the basis of a funding formula to be adopted by the Audit Committee of Parliament: a legislative requirement for efficiency audits; separate determination of the budget for regularity and performance, specifically efficiency, audits; linkage of funds for efficiency audits with growth in government income and outlays, and with change in the structure of government programs; and the Australian Audit Office's performance in regard to efficiency audits.	Supported	Accepted in principle that resources but the question of additional resources would need to take account of Auditor-General's initiatives and flexibility to vary the allocation of resources between regulatory and performance audits and other activities undertaken, the efficiencies generated by the significant investment in computing facilities ... and further application of risk management in its approach to regulatory auditing. ...

<b>Rec. no.</b>	<b>Recommendation</b>	<b>Auditor-General's response</b>	<b>Government's response</b>
17	The Australian Audit Office adopt the following cycle of audits for all programs with expenditure or revenue greater than \$10m: a twenty year cycle for government companies; a ten year cycle for statutory authorities; a five year cycle for Departmental commercial undertakings; a five year cycle for departmental outriders; and a three year cycle for departments	Supported but noted a number of issues that needed to be resolved concerning Recommendations 16 and 17 including the recommended cycle for efficiency audits, the distinction between project and efficiency audits, and the funding for efficiency audits and the base from which any increase would commence. ... Strongly supported the principle that the Auditor-General should be under an obligation to carry out a certain amount of efficiency auditing each year.	No supported. The Government considers the scope of the existing efficiency audit provisions are satisfactory and does not support the JCPA proposal that the Audit Act be amended to require the Auditor-General to execute a cycle of efficiency audits ... the Government considers it should be the Auditor-General's sole discretion to decide which portfolios should be subject to efficiency audits.
25	The Auditor-General not develop other specialties permitting the Audit Office to operate as a consultant in fields such as: human resource management, financial management, taxation, investment advice, or computer systems, except where areas are developed as a result of evolution of the audit task.	Accepted	N/a
26	The Auditor-General continue to have responsibility for efficiency audits.	Supported	Supported.

<b>Rec. no.</b>	<b>Recommendation</b>	<b>Auditor-General's response</b>	<b>Government's response</b>
27	The general principle that efficiency audits be conducted by multi-disciplinary teams be accepted. Further, in conducting efficiency audits, the Auditor-General ensure that a sufficient level of experience and expertise relevant to the audit subject is available to the efficiency audit team.	Accepted but noted presupposition of sufficient funding for expansion of efficiency auditing into a viable career structure for staff with disciplines other than accounting.	N/a
28	The Auditor-General give priority to development of the capacity to criticise constructively auditees' evaluation plans without commenting on the merits or otherwise of government policies and recruit staff with the skills necessary to analyse evaluation plans and practices.	Accepted but noted resource implications of recruiting staff with specific expertise.	N/a
29	The Auditor-General initiate each year a number of efficiency audits spanning more than one program or agency. This focus could coincide with experimentation in audit reports, for example, through release of discussion papers on audit topics.	Accepted but noted the number of cross-agency and cross-program audits would vary depending on funding.	N/a
30	The Auditor-General and the Secretary of the Department of Finance consult on topics for efficiency audits. Further, the Auditor-General also consult with Parliamentary committees on topics for efficiency audits.	Accepted.	N/a



<b>Rec. no.</b>	<b>Recommendation</b>	<b>Auditor-General's response</b>	<b>Government's response</b>
31	The Auditor-General be required to provide a final efficiency audit report within six months of initiation of selected efficiency audits. Further, that this requirement be introduced on an experimental basis for a two-years period to determine the effects on resources, selection of topics, and accountability to Parliament.	Accepted objective that efficiency audits should take less time. Preliminary work on a trial audit with six month time frame commenced.	N/a
32	The Auditor-General trial for two years the conduct of efficiency audits of commercially oriented government organisations with restricted reporting as provided for under Section 48F of the <i>Audit Act 1901</i> . Further, restricted reports be provided to the Minister responsible for the auditee organisation and to the Public Accounts Committee.	Accepted subject to sufficient additional resources.	N/a
33	For selected efficiency audits, the Auditor-General consult with the departmental secretary or chief executive officer of the instrumentality to be audited to permit temporary appointment of an auditee staff member or members to the efficiency audit team.	Accepted.	N/a
34	The Auditor-General publish in his annual report details of all or any instances of a minister refusing the Auditor-General's request to conduct an efficiency audit of government instrumentalities where such permission is required.	Accepted.	N/a

<b>Rec. no.</b>	<b>Recommendation</b>	<b>Auditor-General's response</b>	<b>Government's response</b>
35	Section 48C of the <i>Audit Act 1901</i> be amended to permit the Auditor-General to conduct an efficiency audit of an eligible incorporated company without a minister's permission. Further, the definition of eligible incorporated company be amended to give effect to the Committee's concerns that the current definition excludes a company which is incorporated as an initiative of the Commonwealth and which receives the majority of its funding from the Commonwealth but which for policy reasons has a board of directors on which Commonwealth representatives are in a minority.	Supported	Partial support. There is little to be gained by subjecting GBEs to efficiency audits as the discipline to be efficient is imposed through the focus on targets and related performance measurement. No objection in principle for efficiency audits of bodies where control not exercised by the Commonwealth but which receives majority of their funding from the Commonwealth.
36	A detailed review of efficiency audit guidelines for Government Business Enterprises be undertaken, as recommended in the Committee's Report on the Australian Wool Corporation's property operations (Report 282). Further, this review should be undertaken by the Auditor-General and include new guidelines for Statutory Authorities, Statutory Marketing Authorities and government companies, involving representatives of those organisations and the Department of Finance.	Accepted.	N/a

<b>Rec. no.</b>	<b>Recommendation</b>	<b>Auditor-General's response</b>	<b>Government's response</b>
37	In accordance with the recommendation of the House Standing Committee on Transport, Communications and Infrastructure, where an auditee accepts the proposals for change made by the Auditor-General in an efficiency audit report, the auditee provide the relevant Parliamentary committee with a timetable for implementation at the commencement of the Parliamentary inquiry.	Supported	Accepted.
38	The Auditor-General devote significant resources to follow-up of performance audits, and adopt a systematic approach to follow-up of performance audit findings.	Accepted the objective of the recommendation but not possible without additional resources.	N/a
39	Follow-up procedures for performance audits be linked to follow-up procedures for regularity audits in the Audit Office.	Accepted the objective of the recommendation but not possible without additional resources.	N/a
40	In accordance with the recommendation of the former House Standing Committee on Expenditure in 1986, the Australian Audit Office advise the Parliament of deficiencies in the consideration and implementation of efficiency audit recommendations.	Accepted the objective of the recommendation but not possible without additional resources.	N/a
56	The main results of efficiency audits be included in the Auditor-General's biannual reports on audits completed in the previous six months.	Accepted.	

<b>Rec. no.</b>	<b>Recommendation</b>	<b>Auditor-General's response</b>	<b>Government's response</b>
57.	The Auditor-General publish in his annual report the costs of each audit including the costs of audits reported separately, such as efficiency audits and any special audits.	Accepted.	N/a

## APPENDIX J

### NEGATIVE COMMITTEE FEEDBACK

<b>Audit (short title)<sup>112</sup></b>	<b>Agency</b>	<b>Report date</b>	<b>Review date</b>	<b>Committee (House or Joint)</b>
Australian Property Function*	Administrative Services	Apr 1980	June 1981	Expenditure (House)
Commonwealth Nursing Homes*	Health	Feb 1981	Feb 1982	Expenditure (House)
Bilateral Overseas Trade Program*	Australian Development Assistance Bureau	Oct 1981	Oct 1982	PAC (Joint)
Management of the Main Battle Tank*	Defence	May 1983	May 1984	Expenditure (House)
Control of Prohibited Immigration*	Immigration and Ethnic Affairs	June 1984	Nov 1985	Expenditure (House)
Maintenance of Airways Facilities*	Aviation	June 1984	May 1986	Expenditure (House)
Various*	Australian Taxation Office	June-Dec 1984	Sept 1986	Expenditure (House)
Control of Manpower and Property*	Overseas Telecommunications Commission	Sept 1984	Nov 1986	Expenditure (House)
Australia Post*	Australia Post	Discontinued	Aug 1986	PAC (Joint)
Construction Project Management	Housing and Construction	Nov 1985	Feb 1987	Expenditure (House)

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<sup>112</sup> Audits marked with an asterisk were conducted, in full or in part, by the Efficiency Audit Division.

<b>Audit (short title)<sup>112</sup></b>	<b>Agency</b>	<b>Report date</b>	<b>Review date</b>	<b>Committee (House or Joint)</b>
Property Operations	Australian Wool Corporation	Nov 1985	Oct 1987	PAC (Joint)
Administration of Capital Grants	Commonwealth Schools Commission	Sept 1986	Nov 1987	PAC (Joint)
Various	Australian Taxation Office	Mar-Sept 1986	May 1988	Finance and Public Administration (House)
Repairs and Maintenance of Commonwealth Assets	Housing and Construction	May 1987	Nov 1988	Financial Institutions and Public Administration (House)
Australian Government Publishing Service	AGPS	Nov 1987	Nov 1988	Publications (Joint)
Home and Community Care Program	Community Services and Health	May 1988	Oct 1989	Financial Institutions and Public Administration (House)
Research Project Administration	Office of the Supervising Scientist	September 1989	Dec 1989	Environment, Recreation and the Arts (House)
Various	Various	May-Nov 1990	Apr 1992	PAC (Joint)
Community Cultural, Recreational and Sporting Facilities Program	Environment, Recreation and the Arts	Dec 1993	Feb 1994	Environment, Recreation and the Arts (House)
Commonwealth Development Employment Projects Scheme	Aboriginal and Torres Strait Islander Commission	October 1995	Dec 1996	Aboriginal and Torres Strait Islander Affairs

<b>Audit (short title)<sup>112</sup></b>	<b>Agency</b>	<b>Report date</b>	<b>Review date</b>	<b>Committee (House or Joint)</b>
Environmental Management of Commonwealth Land	Various	June 1996	Mar 1997	Environment, Recreation and the Arts (House)
Commonwealth Fisheries Management	Australian Fisheries Management Authority	June 1996	June 1997	Primary Industries, Resources and Rural and Regional Affairs (House)

## APPENDIX K

### POSITIVE COMMITTEE FEEDBACK

<b>Audit (short title)<sup>113</sup></b>	<b>Agency</b>	<b>Report date</b>	<b>Review date</b>	<b>Committee (House or Joint)</b>
Australian Property Function*	Administrative Services	Apr 1980	June 1981	Expenditure (House)
Commonwealth Nursing Homes*	Health	Feb 1981	Feb 1982	Expenditure (House)
Bilateral Overseas Trade Program*	Australian Development Assistance Bureau	Oct 1981	Oct 1982	PAC (Joint)
Control of Prohibited Immigration*	Immigration and Ethnic Affairs	June 1984	Nov 1985	Expenditure (House)
Maintenance of Airways Facilities*	Aviation	June 1984	May 1986	Expenditure (House)
Various*	Australian Taxation Office	June-Dec 1984	Sept 1986	Expenditure (House)
Control of Manpower and Property*	Overseas Telecommunications Commission	Sept 1984	Nov 1986	Expenditure (House)
Various	Australian Taxation Office	Mar-Sept 1986	May 1988	Finance and Public Administration (House)
Repairs and Maintenance of Commonwealth Assets	Housing and Construction	May 1987	Nov 1988	Finance and Public Administration (House)

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<sup>113</sup> Audits marked with an asterisk were conducted, in full or in part, by the Efficiency Audit Division.



<b>Audit (short title)<sup>113</sup></b>	<b>Agency</b>	<b>Report date</b>	<b>Review date</b>	<b>Committee (House or Joint)</b>
International Profit Shifting	Australian Taxation Office	Nov 1987	Nov 1988	Finance and Public Administration (House)
Australian Government Publishing Service	AGPS	Nov 1987	Nov 1988	Publications (Joint)
Taxpayers in unincorporated business	Australian Taxation Office	Dec 1987	Nov 1988	Finance and Public Administration (House)
Home and Community Care Program	Community Services and Health	May 1988	Oct 1989	Finance and Public Administration (House)
Research Project Administration	Office of the Supervising Scientist	September 1989	Dec 1989	Environment, Recreation and the Arts (House)
Various	Various	May-Nov 1990	Apr 1992	PAC (Joint)
Various	Various	May 1990 – Apr 1991	Nov 1992	PAC (Joint)
Community Cultural, Recreational and Sporting Facilities Program	Environment, Recreation and the Arts	Dec 1993	Feb 1984	Environment, Recreation and the Arts (House)
Interim Greenhouse Response	Primary Industries and Energy	May 1993	May 1994	Finance and Public Administration (House)
Various	Various	May 1991 – Sept 1992	Mar 1994	PAC (Joint)
Various	Various	July 1992 – June 1993	June 1995	PAC (Joint)

<b>Audit (short title)<sup>113</sup></b>	<b>Agency</b>	<b>Report date</b>	<b>Review date</b>	<b>Committee (House or Joint)</b>
Commonwealth Development Employment Projects Scheme	Aboriginal and Torres Strait Islander Commission	Oct 1995	Dec 1996	Aboriginal and Torres Strait Islander Affairs (House)
Commonwealth Guarantees, Indemnities and Letters of Comfort	Various	Sept 1996	Sept 1997	Financial Institutions and Public Administration (House)