Accountability reform, parliamentary oversight and the role of performance audit in Australia

Zahirul Hoque and Des Pearson

Introduction

In its *Budget Paper No. 4, 2015–16: Agency Resourcing*, the Australian Government sets out a ‘smaller government’ reform agenda aimed at transforming and modernising the public service while eliminating waste and duplication (Commonwealth of Australia 2015: 1). The government is methodically examining all aspects of the public sector, from the functions of agencies to how they operate and are structured. Further, specific reforms in the 2015–16 budget are making a material contribution to budget repair while improving the responsiveness and effectiveness of government. Key elements of the smaller government reforms include: 1) reducing the size of the Commonwealth public service; 2) public sector wage restraint; 3) functional and efficiency reviews; and 4) streamlining government bodies.

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VALUE FOR MONEY

These changes create a greater demand for reform of organisational strategic priorities and involve related issues such as organisational structure, accounting and accountability systems, strategic planning, performance management and reporting and value for money in public sector organisations (Lapsley and Pettigrew 1994; Hood 1995; Hoque and Moll 2001; Hoque 2015). This chapter focuses on the relationships between performance management, parliamentary oversight and performance (or value-for-money) auditing in the context of the Australian Government’s reform agendas for the past two decades. It describes how the audit role has expanded from compliance to performance and the changing nature of the relationship between the audit office, the executive and the legislature.

The remainder of the chapter is organised in the following manner. Section two discusses the nature of accountability and the structure of government, section three presents a discussion on the state of audit roles in Australia and section four presents the research evidence on the challenges involved in performance auditing. This is followed by a discussion on the performance of the auditor-general. The final section concludes by outlining some lessons that can be learned from Australia’s experience by other nations across the globe.

The nature of accountability and the structure of government

Public accountability exposes the choices of decision-makers to public scrutiny, to being discussed and criticised in public (Steffek 2010). If one is accountable then one is answerable for one’s decisions and actions. Various forms of accountability have been developed by academics consistent with these ideas (Hood 1995; Pollitt et al. 1999; Jones et al. 2010; Hoque 2015).

Broadbent and Laughlin (2003) draw a distinction between two forms of government accountability structures—namely, political accountability and managerial accountability. Political accountability is when governments are accountable to their electors for the authority granted to them; managerial accountability is when they are made accountable for the responsibilities delegated to them. The literature discusses the
separation of politics from administration, suggesting that politicians are responsible for policies and professional administrators are responsible for administration through politicians to the legislature.

In Western democracies, governments exercise control over society, which, in turn, votes to elect them into power. However, although the voting public has the power to elect these bodies, it does not have the power to dictate practical action, which leaves governments in a powerful position. Parliaments are a complex nexus of relationships and authority and, as this grows, it becomes even more difficult to manage them. This has encouraged the burgeoning of parliamentary committees in many jurisdictions.

The Public Accounts Committee (PAC) is one such parliamentary committee. It was established to review the expenditure of government and ensure public funds are spent in an effective, efficient, economical and ethical manner (James 2009; Jones and Jacobs 2009; Khan and Hoque 2016). The PAC scrutinises the reports on government entities tabled by the auditor-general and holds the executive responsible for acting on them. Broadbent and Laughlin (2003) argue that increasing public pressure on governments has broadened the scope of political accountability to encompass managerial accountability. Although this has not bestowed direct control of administration, governments can be held accountable for the legitimacy and implementation of their decisions and be pressured to ‘steer’ societal institutions and organisations. In this context, Pelizzo and Stapenhurst (2013) distinguish between vertical accountability; horizontal accountability as existing forms of government accountability. Vertical accountability is where citizens, mass media and civil society seek to enforce standards of good performance on officials and horizontal accountability is where state institutions (particularly supreme audit institutions) play the vital role of oversight of other public institutions, agencies and branches of government.

Legislatures legislate, but it is also the responsibility of the legislature to oversee the actions of the executive, to ensure what is executed is in line with what is legislated (Pelizzo and Stapenhurst 2013). Indeed, the legislature takes on the role of watchdog for all government activities. In the next two paragraphs, the role of this oversight function under the parliamentary and presidential systems of government is discussed. The differences between them serve to highlight the different conceptions of the auditing function.
Under the Westminster parliamentary system, the executive is formed from within the legislative branch of government. The head of the government (the prime minister or chancellor) and the cabinet (or executives made up of members of the government) sit together in the legislature, which makes the executive dependent on the legislature’s confidence. The executive is responsible to the legislature, which may remove it with a vote of no confidence. The legislature holds the government to account on behalf of the citizens.

In contrast, the presidential system is characterised by the separation of powers, meaning the president and the cabinet (executive) are not and cannot be Members of Parliament (MPs) and do not require the legislature’s confidence. According to the separation-of-powers doctrine, the legislature in a presidential system is considered an independent and coequal branch of government, along with both the judiciary and the executive. In presidential systems, both the legislature and the government are accountable directly to the public; the legislature’s role is more that of an oversight institution (Pelizzo and Stapenhurst 2013).

In both systems, the legislature has an oversight function and an enforceability function. To implement the oversight function, there are parliamentary committees, question time and review and approval of certain government appointments. To carry out this function effectively, the legislature asks the government to provide information on policy proposals to be approved by the legislature and on programs and policies implemented by the government. They assess what the expected results are and whether they were achieved, and whether implementing a policy was consistent with the funds that were appropriated. This makes governments accountable for their actions, and each and every aspect of a government’s activity can be scrutinised (Pelizzo and Stapenhurst 2013; Khan and Hoque 2016).

In the parliamentary system, PACs and the supreme audit institutions play a vital role in enabling the legislature to carry out the legislative oversight function effectively, making governments accountable. The very first PAC in Australia came into existence as early as the nineteenth century and, since then, it has remained in existence under various names. More recently, specialised audit and public accounts committees have been adopted in presidential systems, suggesting a dynamic approach to the accountability function (Pelizzo and Stapenhurst 2013; Khan and Hoque 2016).
As mentioned, the legislature is responsible for making the elected government responsible for its actions. Thus, the prime minister and ministers (the executive) are answerable to the legislature and accountable for implementing policy decisions effectively, efficiently, economically and ethically. Public sector accounting and accountability in Australia are products of the constitutional requirements of representative government (Funnell et al. 2012). The broad framework of financial accountability, including the mechanisms of accountability for the Commonwealth Government, comprises the Constitution Act 1901, the Auditor-General Act 1997 and the Public Governance Performance and Accountability Act 2013 (which recently replaced the Financial Management and Accountability Act 1997 and the Commonwealth Authorities and Corporations Act 1997). The PAC was originally established under the Public Accounts and Audit Committee Act 1951. It reviews the reports tabled by the auditor-general’s office on behalf of the parliament to assist it to hold the executive accountable for outcomes.

The Commonwealth of Australia’s PAC is known as the Commonwealth Joint Committee of Public Accounts and Audit (JCPAA). In addition, because Australia is a federation of self-governed states and territories, each state and territory has its own PAC or an equivalent. Each is a parliamentary committee that scrutinises the activities of government, including the performance of government agencies. The purpose of the committee remains unchanged from its earliest days—namely, to hold government agencies accountable for the legality, efficiency and effectiveness of their operations. Although internationally it seems unusual for the chair of such a committee to be a member of the government, it is the norm across Australian jurisdictions. According to Funnell et al. (2012: 100):

Since its resurrection, the Public Accounts Committee’s operations have been carried out with a very high level of co-operation between the different sides of politics. The committee has endeavoured to direct its investigations away from matters which could reduce the discussion to political point-scoring and emphasise issues which will enhance the Parliament’s oversight of the Executive.

Amendments to the Public Accounts and Audit Committee Act 1951 strengthened the Commonwealth PAC’s relationship with the auditor-general and made the committee the auditor-general’s financial guardian, hence the name: Commonwealth Joint Committee of Public Accounts and Audit. While nominally part of the executive arm of government
(and subject to the *Public Service Act 1999*), the auditor-general is also ‘an officer of the parliament’ under the *Auditor-General Act*. As Funnell et al. (2012: 101) comment:

A significant innovation [was] the Committee’s right to approve or reject any candidates for the post of Auditor-General. The Auditor-General is similar to the JCPAA in that both, theoretically, carry out their functions on behalf of the Parliament. Both, in other words, are answerable to the Parliament and only to the Parliament. From each of the investigations carried out by the Australian National Audit Office (ANAO) reports will emerge which will be transmitted to the Parliament through the JCPAA. The JCPAA may not examine each report in great detail, however, preferring instead to be prompted by the Auditor-General towards potentially significant areas of investigation. During its investigations, the JCPAA is assisted by representatives from the ANAO and the Department of Finance and Deregulation.

Audit role: The shift from compliance to performance

The report of the Royal Commission on Australian Government Administration (Coombs 1976; also known as the Coombs Report) proposed program budgeting and more emphasis on effectiveness and efficiency. This was not pursued until 1983, when John Dawkins, who was both the minister for finance and the minister for the public service, pushed public sector reform. Another key initiative that year was the publishing of the forward estimates, which had a profound effect on political debates that still applies. But, ahead of the Dawkins reforms, there were the first moves to ‘efficiency audits’ under the Fraser Government in the late 1970s. The finance department’s subsequent push (including through the Financial Management Improvement Program) for wider reforms that focused on results influenced the ANAO to go further in the 1980s. Pat Barrett, as a senior officer in the Department of Finance at the time (and later to become the auditor-general), was very influential in this process. Research evidence suggests that the performance audit was strongly influenced by what is now known as New Public Management (NPM). The International Organization of Supreme Audit Institutions (INTOSAI 2004: 11) defined performance auditing as: ‘An independent examination of the efficiency and effectiveness of government undertakings, programs or organisations, with due regard to economy, and the aim of leading to improvements.’
This definition highlights the fact that performance auditing is an evaluating activity and is concerned with the merit, worth or value of something or a product of a process. It is not just about compliance, which concerns the legal authority and proper reporting of finances and management activity. Performance audits have been criticised as potentially compromising the ability of the auditor-general to provide independent and effective oversight of the implementation of government policies, as they are influenced by the auditor-general and are lacking in objectivity, hence presenting the risk of legitimising or criticising government policies (Gendron et al. 2001, 2007).

In 1989, Peter Hamburger studied the evolution of ‘efficiency’ audits from an Australian perspective. He said:

Efficiency audit was proposed as part of an ambitious set of changes designed to increase the accountability and responsiveness of public sector agencies to their political masters and their clients. It was implemented in isolation with a justification that had shifted to value-for-money. (Hamburger 1989: 3)

He went on to argue that, from its humble beginnings:

The audit office had evolved by the 1970s into a modern audit agency staffed by professional accountants. The systems-based audit was on the horizon and Auditor-General [Duncan] Craik had nudged the Office some way towards a performance orientation with his project audits. In 1979 legislation marked a much larger shift from the certainty of compliance audit to the difficult and subjective evaluation of performance. (Hamburger 1989: 8)

In June 1999, then Commonwealth auditor-general Pat Barrett highlighted the nature of contemporary public administration and his office’s role in auditing the contemporary public sector as follows:

ANAO’s role is to provide assurance to the Parliament and the Australian community on these two aspects, that is, public sector performance and accountability for that performance. While the public sector reforms demand a greater focus on achieving efficient and effective outcomes for citizens, we also need to recognise that such outcomes also depend importantly on robust and credible administrative and management processes. In short, good processes should ensure good outcomes. They are complements, not alternatives. (Barrett 1999: 56)
Barrett (1999) addresses the issue of whether performance audits risk involving the auditor-general in politics by distinguishing the auditor-general’s performance audit functions from auditing the performance of ministers and from examining or reporting on the appropriateness of government policy. However, he says the performance audits can, and do, evaluate how effectively and efficiently government policy has been implemented. He identifies four areas of interest in contemporary public administration audits: contract management, corporate governance, risk management and control and privatisation. These areas are a result of growing private sector participation in public sector activity, resulting from the NPM emphasis on competition. Under the NPM reforms, the public sector is subject to increased levels of scrutiny of its performance and effectiveness and, in many areas, it is subject to competitive processes. Performance assessment covers a range of measures, both qualitative and quantitative, and meeting legislative, community service and international obligations for equity in service delivery and for high standards of ethical behaviour.

The ANAO (2008: 3) defines performance audit as ‘an independent, objective and systematic assessment of public sector entities’ programs, resources, information systems, performance measures, monitoring systems and legal and policy compliance’. Barrett (2012) identified maintaining parliamentary and public confidence in the coverage, timeliness and outcomes of performance audits as a major issue, followed by successful implementation of the recommendations and conclusions. This requires the confidence, cooperation, involvement and commitment of the organisation and the people being audited—important ingredients for the success of the performance audit. There can be an expectations gap in this area. The organisation/people at the strategic planning and programming stages of performance auditing can provide favourable results for both the auditor and the auditee.

McKay (2003) explores two generations of performance evaluation in the public sector in Australia: pre-1997 and post-1997 reforms. The principle behind the pre-1997 reforms was to ‘let the managers manage’ (McKay 2003: 9). It focused on the devolution of powers and responsibilities, encouraging better performance and providing much greater autonomy. The government promoted program management and budgeting, focusing on the efficiency and effectiveness of government programs through sound management practices, collection of performance information and the regular conduct of program evaluations. The Department of Finance
and the then Public Service Board were responsible for guidance material on these principles. Central departments also participated in measuring program effectiveness and joint management reviews of programs. However, the Department of Finance formed the view that the progress made was insufficient and proposed a firmer top-down evaluation strategy to improve program performance. The program evaluation strategy put in place involved evaluating every program every three to five years and requiring all new policy proposals to refer to evaluation evidence and to describe how future evaluation was to be conducted. According to McKay (2003), the new program evaluation strategy had one serious limitation, in that it paid insufficient attention to the regular collection, use and reporting of performance information and did not use tools such as management information systems and performance indicators effectively, making it difficult to enforce.

The ANAO played a crucial role in program evaluation in this first generation with ‘efficiency audits’ and publishing two ‘better practice guides’, reminding departments about the importance of systematically planning their evaluation activity. This strong support for evaluation by the ANAO continues today with its ‘performance audit’ providing invaluable support for Australia’s performance evaluation and management system (McKay 2003).

The second generation of reforms (post-1997) focused on the introduction of accrual accounting in the federal budget and a new ‘outcomes and outputs’ framework replacing program budgeting. This led to benchmarking of the unit cost of government outputs (service delivery), which facilitated further market testing and contracting out. Budget appropriations were based on stated ‘outcomes’ and moved away from a traditional focus on spending (inputs). The formal evaluation system of the first generation disappeared, although, from 2004–05 onwards, ministers who wished to acquire new program funding (via a submission to cabinet) for fixed-term programs were still required to review the program’s performance to ensure it was achieving its objectives. The Department of Finance and Administration (previously known as the Department of Finance) prepared terms of reference to guide such reviews but with no requirement for review of ongoing programs. The Department of Finance and Administration described this new-generation performance evaluation and management system as a devolved approach
VALUE FOR MONEY

(Russell 2003, cited in McKay 2003). The then Australian auditor-general characterised these reforms as deregulation of evaluation (Barrett 2001, cited in McKay 2003).

When the ANAO conducted performance audits of a sample of departments’ and agencies’ annual reports to the parliament, this new generation of ‘outcomes and outputs’ framework was considered inadequate. The 2001 ANAO audit found:

while the performance reporting of agencies did focus on outcome indicators, these indicators were inadequate to measure actual outcomes of government activities because reported indicators are often influenced by factors beyond the agencies’ control and which mask any direct effects of the agencies themselves. (McKay 2003: 15)

It concluded:

there was a strong argument for conducting evaluations and reviews as a complement to performance indicators so that the relative importance of the agencies’ performance vis-a-vis external factors can be assessed. The ANAO also noted that the performance information did not always include targets, and where it did they were often vague or ambiguous. (McKay 2003: 15)

In summary, the ANAO found that annual reports do define outcomes clearly, but the provision of accurate information to assess performance was not supported by adequate data quality and coherence due to lack of standards and procedures. As McKay argues:

ANAO concluded that ‘Performance information’ had not been presented and analysed in annual reports in a way that would allow Parliamentarians and other stakeholders to interpret and fully understand results. (McKay 2003: 15)

There is also dissatisfaction from parliamentary committees, particularly in relation to definitional changes from year to year on the performance information provided (McKay 2003). ANAO performance audits revealed that, in spite of the second-generation (outcomes-and-outputs) framework having been in place for over five years, the information base was inadequate for the necessary achievement of the strategic objectives of that framework (McKay 2003)
It has now been over a decade since McKay’s article on the performance evaluation history and there have been many further developments. However, in a recent article, Lewis (2012: 312), quoting the ANAO’s 2011 annual report, notes that, in 2011, the ANAO completed a performance audit of the quality of performance information in portfolio budget statements (PBSs). The report found that weaknesses observed by the ANAO and others in earlier assessments remain stubbornly persistent, particularly in relation to the lack of consistency and quality of performance information.

The auditor-general is responsible under the Auditor-General Act 1997 for the provision of audit services to the parliament and public sector entities. The two significant functions of the auditor-general are the performance audits and the financial statement audits. Performance audits by the ANAO highlight the need to continue to strengthen program performance measurement and reporting. This has resulted in establishing frameworks within entities to guide performance measurement activity. The key performance indicators (KPIs) set appropriate baselines and benchmarks for program implementation, and reporting on appropriate KPIs informs stakeholders of the progress of those programs. There were amendments to the Auditor-General Act 1997 in December 2011 that provided the auditor-general with the explicit authority to audit the suitability of entities’ KPIs and the completeness and accuracy of their reporting (ANAO 2012–13)

The ANAO follows continuous improvement practices to enhance the quality of performance audits, and state and territory offices follow suit. The most recent performance audit (2012) by the Victorian Auditor-General’s Office (VAGO) outlines the extent to which VAGO performance audit recommendations were adopted and monitored. The Victorian Auditor-General does not have powers to enforce recommendations made to government agencies; however, findings indicate:

Agencies reported significant acceptance of—and activity in response to—our 2012–13 performance audit recommendations. This demonstrates the relevance and value of these recommendations and shows that agencies are working to address audit issues. However, some agencies can improve the clarity and completeness of their responses, and could address delays in commencing and completing actions. This will help agencies to rectify the issues raised by audits in a thorough and timely way. (VAGO 2014–15: 5)
Another observation by the Victorian Auditor-General is that local government councils’ performance reporting remains inadequate. Inadequate quality and availability of performance information have reduced councils’ accountability for performance and have impeded their capacity to address the issues (VAGO 2012). The VAGO report (2012: 7) identifies the following recurring themes:

- Poor financial and asset management practices were identified repeatedly, offering little assurance that councils’ long-term financial management is robust.

- A lack of effective policies, planning, monitoring and evaluation, including data quality assurance was identified in multiple audits, reducing assurance that councils are operating efficiently and in compliance with relevant obligations.

- Inadequate oversight of procurement processes was an ongoing issue, despite similar issues being identified 10 years earlier.

According to the VAGO report (2012: 7), ‘these issues are due in part to deficiencies in the quality and availability of performance information to managers and councillors. This impedes their capacity to take corrective action’. The report argues:

performance weaknesses also reflect resource constraints at councils, the administrative burden of compliance with state and Commonwealth requirements, and the difficulty of attracting and retaining skilled staff, particularly in regional and rural areas. (VAGO 2012: 7)

In conclusion, Australia is now well experienced in performance auditing complementing broader performance management reforms and is at least comparable with other developed countries in their use. It has largely avoided the risks identified by some scholars of entering into the political field. Recent changes to legislation, the high adoption rate of audit recommendations and other developments in the arena of performance audit will continue to strengthen the overall impact of performance audit in meeting the strategic objectives of government program evaluation, which are transparency, efficiency, effectiveness, economy and ethical administration. The audit activity has helped to improve performance management in Australia, identifying weaknesses in various public sector reform developments since the 1980s and highlighting directions for further improvement.
Challenges for the new role for audit under performance-based accountability

This section discusses the challenges of performance-based auditing for the public sector. In so doing, the findings of researchers are highlighted in relation to the shift in the role of audit such as the capacity of MPs to undertake new oversight roles, success factors for performance accountability and the independence of the auditor-general, among others.

Coghill et al. (2014) add to the literature of accountability by recommending formal induction and development programs for MPs to enhance their capacity to undertake new oversight responsibilities. As many parliamentary oversight functions occur through parliamentary committees, the capacity of committees to perform these functions is effectively largely contingent on the knowledge, skills and abilities of individual committee members. They recognise that parliament, the legal infrastructure and parliamentary culture are important; however, they recommend developing parliament’s oversight capacity through MPs’ professional development programs.

O’Dea (2012, 2015), in his study of PACs across Australia, identified six key success factors. He refers to the PAC as one arm of government (parliament) competing against another (the executive). This, he says, is not surprising in the context of Australia’s adversarial political system, however, both the executive and the parliament can operate well together through the PAC in a balanced way so that, ultimately, the public wins. The six success factors for the PAC he identifies are impartiality, the stage in the political cycle, the resources available, parliament’s level of interest, the level of media involvement and a healthy relationship with the audit office.

Clark and De Martinis (2003) compare the enabling legislation of four officers of the Victorian state parliament in terms of their powers, independence, funding and mandate, as well as the accountability mechanisms available to parliament in terms of their appointment, tenure and oversight. Their study used a two-part independence and accountability framework as a basis to examine the enabling legislation. The four officers studied are the auditor-general, the ombudsman, the regulator-general and the director of public prosecutions. The role
of auditor-general is of particular relevance to the PAC. This analysis revealed ways in which the relationship between these officers and the parliament may be further strengthened, including through amendments to the enabling legislation—for example, requiring the auditor-general to submit an annual work plan to parliament. Arguably, this requirement could be seen to inhibit the scope and independence of the auditor-general—for example, if parliament tried to constrain the auditor-general either away from what the executive is concerned about politically (noting the executive has command of the lower house of parliament) or towards narrow political concerns of the opposition or minor parties, and not where the auditor-general considers the serious risks are.

Jones and Jacobs (2009) explored the impact of NPM on the PAC of the State of Victoria, Australia. They ask the question: what makes public accounts committees work? Among several other findings, they reiterate the need for political will to be applied to overseeing the government. Trenordan (2001) describes the issues for public servants who are questioned during committee hearings. The PAC is a vital accountability mechanism and it is not unusual for the committee to have questions regarding reports submitted by the auditor-general. There has been an increasing demand for public servants to appear before parliamentary committees to answer questions and explain or justify their own and their department’s actions. Although lower house ministers do not usually appear before senate committees, there is always a government senator to represent the minister; however, most questions are answered by public servants. This is consistent with English and Guthrie’s (2000) argument that there has been a shift to public servants being held accountable rather than ministers. However, the process of questioning public servants leads to much political gaming to get the public servants to embarrass their ministers, rather than to pursue genuine performance matters. Trenordan (2001) concludes there is a need to find some balance between the accountability of public servants for administration and the political responsibility of ministers.

Crawford et al. (2006) focus on reforms to ministerial responsibilities and conclude that ministers must make all reasonable efforts to meet any request made by the committee for information that is relevant to their inquiry, including facilitating the presence of public servants. Laing (2007) draws attention to various legal and technical aspects of public accounting and their relevance to accountability, including for performance. Departmental appropriations authorise spending from what
is called the Consolidated Revenue Fund (CRF). The CRF is a notional fund where all government revenue is accumulated for appropriation towards government expenditure; this provides important discipline both for comprehensive oversight of revenue and for promoting prioritisation of all expenditure allocations. The rules of appropriations are that monies appropriated for specific services must be spent for that particular service, and accounted for. This provides additional discipline and the basis for proper accountability. In the past, there have been cases where a mismatch has occurred between the formal appropriations and the actual purpose for which funds were spent. These variations may be dismissed as technicalities of accounting; however, their impact may have far-reaching consequences for accountability, revealing poorly administered or inappropriate expenditure on programs, which rightly attracts public and media review. Laing (2007) concludes that accounting and accountability are not synonymous: while technical aspects of accounting are based on a set of rules, overall accountability is based on broader criteria of appropriate, effective, efficient, economical and ethical allocation of resources. Andrew Podger (Chapter 6, this volume) picks up on other important technical issues here, such as MPs’ concerns that the outcomes framework gives too great a licence to ministers (allowing very broad interpretations of the purpose of appropriations), particularly when the wording is vague, leading to the return to program appropriation arrangements.

James (2009) investigated the requirement that governments respond to parliamentary committee reports and considered to what extent government responses are important in evaluating the effectiveness of committees. In Australia, the federal government formally responds to committee reports by way of a statement presented to one or both houses of parliament. James (2009) refers to media releases that state millions of dollars have been wasted on reviewing and making recommendations for better response mechanisms for parliamentary committee inquiries, including the PAC. Owing to this lack of response, committees have been deemed ineffective and wasteful. However, it is a misnomer to state that the government response to a parliamentary committee inquiry is the only factor determinative of the effectiveness of a committee, even if it certainly remains an important measure. In the Commonwealth, auditors-general reports are almost always the focus of senate estimates hearings, whether or not the government agrees with the auditor-general or the PAC. For a while, the government used to report regularly to the parliament on the progress of its agreed actions after the auditor-general’s
VALUE FOR MONEY

reports, but that practice has now disappeared. It is possible that the
government policy may still change as a result of a committee inquiry
irrespective of the lack of formal government response. James (2009)
concludes that responding to recommendations made by the committee
in the subsequent annual report may be an effective way of dealing with
the issue.

Pearson (2012), the former auditor-general of the State of Victoria, sheds
light on the changing nature of the auditor-general’s role. He argues
that Victoria’s audit legislation across the 1970s, 1980s and 1990s gave
rise to the kinds of modern audit reports that parliament now uses—
the distillation of targeted audits of systemic issues and the provision of
opinions on the reliability and accuracy of agencies’ own financial reports—
and that ‘[f]or the first time, Parliaments could ask their auditor to report
to them not just “how much”—but “how well”’ (Pearson 2012: 175).
This went beyond the realm of traditional financial audit and bestowed
a more contentious role on the auditor-general. The executive became
answerable to a critic (the auditor-general) who is able to probe into
operational matters and report directly to the elected legislature. This shift
to a more active, and more controversial, role for auditors-general made
necessary the next phase of public sector audit legislation in Victoria: the
introduced special protection for the independence of the auditor-general,
including complete discretion in his or her functions or powers, with new
accountability requirements for the auditor-general and his or her office,
notably in the area of performance audits and the requirement for the
auditor-general to consult extensively with a committee of the parliament
in determining his or her audit program (Pearson 2012).

Ojiha (2012) studied the effectiveness of parliamentary committees
in Queensland. A total of 235 committee reports were consulted and
interviews were conducted with parliamentarians. Specifically, in relation
to the PAC, Ojiha (2012) analysed the various reports and ministerial
responses to committee reports and found that 81 per cent of the
recommendations were fully accepted, 13 per cent were partly accepted
and 4 per cent were not accepted by the executive during the study
period. However, he cautions that this result should not be interpreted as
the executive’s willingness to adopt recommendations, because the more
difficult recommendations that impact on the executive were not adopted
or only partially adopted.
Performance of the auditor-general

Academic research (Hoque and Adams 2011; Hoque 2015; Sutheewasinnon and Saikaew 2015; Khan and Hoque 2016) has shown that the reform process in the public sector may not be driven solely by economic rationality, but rather could also involve ‘window dressing’ by organisations. Within such an environment, public sector entities may be undergoing reforms not to achieve managerial efficiency but to legitimise themselves to the electorate and other constituents, such as government and the media.

Based on the authors’ observation of several government agencies’ performance reporting to the VAGO, the advent of performance audits has undoubtedly contributed, along with other public sector reform and improvement initiatives, to improved government performance in Australia. Overall standards of program delivery have steadily improved even as the size of the task (as indicated by the growth in population) has grown. Nevertheless, given the lack of maturity and cohesiveness of performance reporting in the public sector, it is not possible to reliably quantify or otherwise reliably measure this improvement or to attribute responsibility.

In this context, it is also important to again recognise that the audit role has no executive authority to impose a penalty or demand particular action: the role of the auditor-general, as established by legislation, is to undertake audits and express an audit opinion. The role of the auditor is therefore to provide assurance and to inform the parliament so the parliament can hold the executive to account. The persuasive effect of the ‘sanction’ of a publicly expressed authoritative opinion or report, however, cannot be underestimated.

Auditors-general nevertheless are on the record as seeking to leverage their assurance role, to provide adequate audit coverage of the highest risk and most material areas of administration. In other words, their audit planning and reports can be used as a catalyst for improvements in the standard of public administration, both in the immediate areas subject to audit and more broadly across the public sector. This approach can be illustrated with two examples.
First, the Victorian Auditor-General, in his 2014–15 Annual Report (VAGO 2014–15: 6), refers to ‘[d]oing the right topics at the right time’ and explains that the Annual Plan 2015–16 was developed with a particular emphasis on providing a nimble and well-targeted program of audits. Reference was also made to a key factor in addressing the audit task: increased engagement with agencies, MPs and the general public. This approach indicates a strong alignment of audit activity with topic areas warranting priority attention. Exceptions reported are then followed up by responsible management, oversight within the executive by central agencies such as the departments of treasury or finance and by parliament via the PAC. This provides a strong process to ensure appropriate remedial action is taken that will lead to improvement in program delivery.

Second, the ANAO reports on its own performance, using the standard outcome and programs framework. According to its 2014–15 annual report, the ANAO’s Outcome 1 is to improve public sector performance and accountability through independent reporting on Australian government administration to the parliament, the executive and the public. Program 1.2: Performance Audit Services has three objectives:

- To report objectively on the performance of Australian government programs and activities, including opportunities for improvement, by undertaking a program of independent performance audits and related reports for the information of parliament, the executive and the public.
- To contribute to improvements in Australian government administration by identifying and promoting better practice.
- To contribute to the auditing profession and public sector developments nationally and internationally.

The performance criteria applied by the ANAO (2014–15: 7) are stated as the potential benefits to public administration, reducing risks to reputation and service delivery and the extent of previous audit and review coverage. These all point to leveraging the assurance role to achieve improvements in the performance of government programs.

In terms of seeking to influence improved program management more broadly, in addition, auditors-general are required to table their reports in parliament, where they are on the public record, debated in parliament and commented on in the media, and also to make presentations on their
work at conferences and seminars. This leads to the broader public sector being alerted to shortcomings identified by the audit—importantly, for attention by the management of comparable programs.

A scorecard is implemented that outlines the performance of the ANAO in areas relating to the satisfaction of parliamentarians with ANAO activity, measured by a survey and the percentage of audit recommendations accepted by the JCPAA. The indicators of satisfaction are coverage, timeliness and quality of activity measured by a survey of the JCPAA. The value added to the auditee is measured by the percentage of audits that add value to the public sector, as acknowledged by the public sector body audited. The financial impact of the ANAO’s work is highlighted in three reports from 2004 to 2006, which indicate an annual saving of about $21–$32 million could be realised if ANAO audit recommendations were implemented (ANAO 2004, 2006, cited in Colin and Jay 2010). Table 9.1 presents an extract of the ANAO’s outputs–outcome framework.

Table 9.1 The ANAO output–outcome framework

| Outcome 1. Improvement in public administration: Independent assessment of the performance of Commonwealth public sector activities, the scope for improving efficiency and administrative effectiveness. |
| Output group 1 | Output group 2 | Output group 3 |
| Performance audit services | Information support services | Assurance audit services |
| Performance audit reports | Assistance to the parliament, national and international | Financial statement audit reports |
| Other audit and related reports | Representation Client seminars Better practice guides | Other assurance reports Business support Process audit reports Protective security audit reports |

Source: Adapted from ANAO (2005–06).

Colin and Jay (2010) explore the performance audit practices across the United Kingdom, Australia, Canada, the United States and New Zealand. Of particular relevance are their findings of the impact of performance reports in Australia. They state the ANAO demonstrates an obligation
to systematically record and measure value through the capture of key information of its activity, referring to the above reporting by the ANAO of its own performance.

Each year, the ANAO submits a PBS to parliament setting out the outcomes to be achieved and outputs to be delivered in that year. An outputs–outcome framework guides the ANAO and the PBS scorecard, which provides a breakdown of performance against the framework. Both quantitative and qualitative measures are used to ascertain the performance of the ANAO against its objectives; these include surveys of activity with clients, reviews of audit quality, feedback from participants in ANAO seminar activity and the number of reports produced (Colin and Jay 2010: 58).

A recent initiative developed in the VAGO has been to more formally distil and promulgate key audit themes. This has now developed into volume two of its annual report (VAGO 2014–15). The VAGO’s program of financial and performance audits has covered hundreds of agencies, with each audit leading to recommendations for improvements specific to that agency. Audits are designed to be tools for improvement and VAGO has sought to help agencies learn from the experience of others; VAGO analyses their reports and develops a summary of the most frequent and significant audit findings. While this has been done since 2009, it is now at the stage where the themes are being included in volume two of the annual report and include self-assessment questions for each theme, developed from the criteria applied to agencies during the audit process. Collectively, these approaches and initiatives strongly indicate that performance audit has contributed to improved government performance.

Conclusions

Using evidence primarily from Australia, this chapter has shown how government reforms over the past two decades have changed the nature of performance audits undertaken in government agencies.

There are a number of lessons from the Australian context that may be transferable, including to developing nations. First and foremost is the strong foundation provided by the financial audit. Since colonisation, jurisdictions in Australia have had a strong emphasis on probity and
regularity. This has served the nation well and enabled a progression from, first, a labour-intensive, transaction-based approach to auditing to, second, a systems-based approach that established the reliability of systems and processes that encouraged a sampling approach to auditing, and, third, to a risk-based audit approach guided by the principles of risk and materiality of transactions and systems, which enables more focused and cost-effective audit coverage. This final approach provides a higher level of assurance of the regularity of financial reports. From this strong financial auditing base, Australia has added a performance audit role. By focusing on the policies as articulated by the executive and exploring the efficiency and effectiveness (and propriety) of administration in achieving these policy objectives, this has largely kept audits from entering into the political field.

Second, complementing this progression in the auditing approach has been the adoption, more recently, of accrual-based accounting across the public sector. This more comprehensive and integrated approach to accounting for public sector resources has provided more informative and reliable financial reporting. Through the use of traditional financial ratios—such as current and asset replacement ratios—it has also made more transparent whether revenues are covering all (both cash and non-cash) costs and provides a basis for determining the financial sustainability of entities and the sector as a whole.

Finally, developing nations can also benefit from the experience of Australian auditors-general developing a mutually respectful and productive relationship with their public accounts committees. These initiatives generally build on the basic legislative requirements to cooperate for the mutual benefit of the auditor and the committee. Initiatives such as consulting with the PAC during the development of the audit program can have significant benefits to the planning process. Similarly, auditors-general and PACs can benefit from the auditor-general providing tailored briefings to the committee on key matters raised in reports to parliament and by the auditor-general and senior audit staff making themselves available as observers when PACs inquire into reports. This has the advantage of being able to contribute timely observations and advice in relation to matters being contemplated in preparation for an inquiry and those arising in the course of an inquiry. This facilitates more informed and timely deliberations for the PAC while also contributing to more focused follow-up of audit reports and initiation of remedial action by audited entities.
References


