

# **The Auditor-General: Ally of the People, The parliament and the Executive**

*Mr John Taylor*

Thanks very much. My motto has long been 'Have independent pen will travel' and therefore I do not have any particular worries about having been in the Prime Minister's Department. Some people seem to think that the Prime Minister's is the source of a lot of people round the bureaucracy. That may not be a good thing — I think it is a good thing. But then I am able to say that. The New Yorkers told me the first time I got up to address them that there are no souls saved after 20 minutes. I have at least 65 minutes of speech here.

## **INTRODUCTION**

Note the addition to the title of JCPA Report No. 296 in the heading of this address. I have added the Executive. It symbolises our approach to our job. We believe we have something good for all three parties mentioned but recognise there may be doubt in some minds!

The tabling of the 296th Report of the Joint Parliamentary Committee of Public Accounts on its inquiry into the Australian Audit Office (AAO) is timely. It provides us all with the opportunity to review, on the basis of a unanimous bipartisan view from that important committee, what we want from governments and their servants (now and in the future) by way of accountability. The 78 recommendations made by the Committee comprehensively address the central issues of audit mandate, independence and the Auditor-General's relation to the Parliament.

## **THE ORIGINS OF THE AUDITOR-GENERAL'S RELATIONS WITH THE PARLIAMENT**

Disclosure and accountability to the Parliament are the cornerstone of the Westminster system. They bring an added discipline to the management processes of executive government.

The Auditor-General, independent of both the executive government and the Parliament, is an essential part of the Westminster system of public accountability. The holder of that Office has the statutory responsibility to report to the Parliament on the integrity, economy and efficiency of the financial operations of executive government. This responsibility supports the Parliament's role as representative of the people and as the forum within and from which the concepts of public interest and of public scrutiny are turned into effective action.

The Auditor-General's accountability role has existed since Federation when the Audit Act was passed in 1901. The legislation was given high priority and it was the fourth Act to be passed by the first Federal Parliament.

Since then the Australian Audit Office, as it became known in 1984, has played a politically neutral and important role as one of the factors intended to ensure that the Commonwealth sector is running as it should. The role was strengthened in 1979 with the introduction to the Audit Act of specific powers to undertake efficiency audits.

With nearly 90 years experience, the Audit Office has developed enormous expertise in public sector auditing. It has also developed and sustained over a long period its reputation for integrity, a key factor in maintaining community confidence in the system of Government.

The consideration given to reports of the Auditor-General by the committees of the Parliament is an important mechanism for reviewing the proper exercise of powers and the effective, efficient and economical use of public resources by Ministers and relevant officers (although, really, however central and important, but one of the sources of information, analysis and review available to the committees). This mechanism is also a way of reviewing our work, as what we have to say is by no means accepted without question by either members of the Committees or others involved.

## **THE TASK AND THE NEED FOR REVIEW**

The AAO has around 350 clients, including Australian Government Departments, statutory authorities, government owned or controlled companies and departmental commercial undertakings.

These clients employ more than half a million people and have a combined revenue and expenditure in excess of \$230 billion annually.

Considering the AAO's comprehensive audit mandate, which includes both financial statement and performance auditing responsibilities, it is a complicated task which each year grows bigger. Rapid technological developments, stricter accounting standards and reporting requirements, changes in bureaucratic procedures and an increase in legislative requirements have added to the complexity. The changes in Government policies relating to the introduction of departmental financial statements, government business enterprises and a more commercial and competitive environment have had a particularly dramatic impact on the environment facing the AAO.

Resources clearly are a problem. We have had increases to deal with additional financial statement work and a significant addition for our information technology project. I have not worried the Government about the need to increase our effort on the efficiency audit side pending our own attempts to increase further our productivity and pending the JCPA Report. I am now convinced that the resource mandate for the AAO to carry out mandatory financial statement audits and the necessary technological developments is barely adequate and is insufficient to perform an effective performance audit coverage. Opportunities elsewhere made irresistible by higher remuneration and better conditions result in a heavy and continuing loss of experienced staff and leave us managing an

overall resource shortage which limits the AAO's effectiveness. This is an aspect not lost on the remaining core of highly competent and loyal staff.

The problem did not, however, emerge overnight. In a report tabled in the Parliament in October 1984 the then Auditor-General, Mr Keith Brigden, stated:

It is timely to question whether the independence of the Auditor-General and the Australian Audit Office from the executive arm of government is not more apparent than real.

This comment was a response to decisions lowering the approved staff ceiling of the Office and rejecting proposals (he assumed on the recommendations of co-ordinating agencies) for upgrading the top structure of the Office to reflect the heightened responsibilities of senior management.

My immediate predecessor, Mr J.V. Monaghan, raised similar concerns in the Annual Reports of the AAO for 1984/85, 1985/86 and 1986/87. Of particular note was his comment in the 1986/87 report in reference to the performance auditing function:

There is, accordingly, a continuing concern lest resource constraints imposed by government through the agency of the Department of Finance jeopardise the continued development of this important element of the public sector audit function.

and in addressing the problems of senior structure and staff remuneration:

The AAO here appears in the same case as some public enterprises, competing to employ staff in a sellers' market with, as it were, a hole in our purse. It is critical for us to find a way of stopping the haemorrhage.

In an environment where resourcing arrangements were seen by him as prejudicing the AAO's independence and without sight of support from the executive, Mr Monaghan retired from the position of Auditor-General and the JCPA took up the task of looking into the AAO. We now have that Committee's report — *The Auditor-General: Ally of the people and the Parliament* — and await the Government's consideration of it.

## **REPORT 296 AND RELATIONS WITH PARLIAMENT**

The Joint Committee of Public Accounts Report 296 recommends the strengthening of the link between the Parliament and the Auditor-General by creating a parliamentary audit committee to advise me on Parliament's audit priorities and the Parliament on the necessary finances for the running of the Audit Office. The Committee also recommended that future audit legislation state unequivocally that the Auditor-General is an officer of the Parliament, in order to emphasise the importance of the relationship with the Parliament.

In making the recommendation for the creation of a Parliamentary audit committee, the Public Accounts Committee was very quick to recognise that the question of

independence was crucial to the effectiveness of the audit function. The relationship between resources and independence is a question to which other countries have devoted a deal of care in ensuring that the Auditor-General has the finances necessary to effectively carry out the audit mandate. For those who are interested, I have attached to this paper details of the practices followed in the UK, Canada and New Zealand .

I want to make it clear that I am certainly not of the view that the Auditor-General can only be independent if he or she has a blank cheque. What is needed is for audit resources to be determined in a more open arena than at present and with some appearance and reality of a more arm's length relationship with the Executive—which, however, has to continue to be comfortable with the result.

As I indicated previously, in Australia the Department of Finance advises the Minister for Finance on the Australian Audit Office's proposed budget. That is its job and that would continue. While there is a realisation that Finance should recognise the special position of the Auditor-General, the Department of Finance is essentially an arm of executive government (however professional it might be in its approach) and an auditee of the AAO. The involvement in the determination of annual budgets by a Parliamentary audit committee would however, bring Australia into line with other countries (such as Canada and the United Kingdom) who have realised:

- conflict can arise (or appear to arise) when an arm of the executive is involved in the question of audit resources; and
- the importance to effective accountability of maintaining the Auditor-General's independent position.

In similar countries overseas, there seems to be an agreement between the Executive and the Parliament as to the amount of resources appropriate to audit function through appropriate mechanisms as the budget is developed. Reasonable men should be able to come to a similar accommodation here.

The Parliament is the Auditor-General's ultimate (some would say only) client. It would not be true to believe, therefore, that the AAO owes the executive government and auditees nothing. As I have said elsewhere, it owes them sound and efficient auditing services, competitive and expert, commercial in attitude, responsible, sensitive, helpful and professional in approach. Indeed, so highly do I place this relationship with the Executive that I have instilled in officers of the AAO that while there can (and should) be no doubt that Parliament is our ultimate and undisputed client, each auditee should be treated in fact as our immediate client with whom we want a good relationship in which we are seen to add value to their operations and reassurance to their managements.

## **ACCOUNTABILITY AND MANDATE**

The Auditor-General's independence and relation to the Parliament are simple and effective concepts which have withstood the test of time, almost unscathed, over the years since the Audit Act was passed in 1901. This is despite—or perhaps because of—the evolution of the public sector that is now evidenced by the complex and diverse activities of government departments and business enterprises as they are today. Audit

techniques and interests have also changed and developed, but the accountability role is now perhaps even more important and valid than it was in 1901.

The Australian people are more aware of and sensitive to the influence of economic management, including management of public-sector expenditure, on their day-to-day lives. They place greater demands on the Parliament, public-sector managers and the Auditor-General to provide accountability of government activity. Recent events in some State administrations underline this and the dangers of too freewheeling an approach to the public purse.

Significant change in recent times has been the devolution of public-sector management, sometimes called 'letting the managers manage'. This is a confusing area, seemingly fraught with subjective judgments about what is risky and what is not, and where even some pundits seem to believe the law might be ignored in the interests of the result.

Our position is clear. Where the cost of a control is higher than the loss likely in the absence of that control, it does not make sense to apply it. But you have to watch the evolving situation to test whether removing the control does not cause an unexpected increase in loss. Results are what we are most interested in, but we cannot ignore inputs. Sensible judgments on the facts are the important thing—not slavish following of the rules. But rules and laws should be changed rather than flouted if they do not make sense. In this environment mistakes will occur and are not necessarily a hanging offence. Not correcting one's mistakes may be. Proper risk management is based on an assessment of risk and regular review of what is actually happening—it is not just having a go!

In the environment of heightened public awareness and devolution (and events elsewhere), it is somewhat surprising that the Auditor-General's accountability link with the Parliament is under strain and has in some cases been broken. With the corporatisation of government activities and business enterprises has come the concept of choice of auditor. The board of some government business enterprises (GBEs) can now appoint a private-sector auditor who reports to the board and the relevant Minister but not to the Parliament.

Parliament's assurance on the operations and results of GBEs would be limited to the short audit report on GBEs' financial statements published with annual reports. Private auditors would not have a mandate to report directly to the Parliament, report in detail on the operation, of GBEs or conduct efficiency audits (there are constraints on my ability to do so as well—both because of resource constraints but also because of a need to receive Ministerial approval before an efficiency audit can be undertaken within a Commonwealth owned or controlled company). The work of Parliament's Committees cannot be supported properly by an auditor whose responsibility is not to them (which is not, of course, a criticism of private auditors but rather a reflection of their proper role). The AAO (rather than the private sector) has these responsibilities.

The reform package for the Transport and Communications portfolio, other changes, and earlier decisions in the auditing arrangements for statutory marketing authorities (SMAs) have affected the mandate of the AAO. In the case of the SMAs, private auditors can be obtained, although the AAO continues to have a detached supervisory role. This is 'ineffectual responsibility'. To have two independent agencies with audit responsibilities

for the same body, particularly when the agencies have differing remits, is not a recipe to commend. There have also been other changes with the hiving-off of defence factories into a company structure such as Australian Defence Industries where we have been subject to very unfair and inaccurate criticism.

It seems that in some cases choice of auditor has been accompanied by a certain amount of special pleading—including suggestions that we lack commerciality and are nitpicking. There is little doubt that these suggestions ignore the fact that (like many of our immediate clients) the AAO has developed in reaction to the changed environment.

A criticism sometimes made is that the AAO lacks the full range of non-audit services offered by private auditing firms. This suggestion alarmed the JCPA which perceived a possibility for conflicts of interest and threats to the independence of the audit role. The JCPA dealt with this concern in the context of the public sector audit process by recommending that, as a condition of the award of a contract by the AAO to a private firm, the firm not offer any other service to the auditee during the life of the audit contract. I would not go so far. The Committee also recommended the AAO not develop specialties in non-audit services.

Despite excellent access and very fair hearings, I remain concerned about the degree of support I have for the proposition that the AAO should remain effectively and by right in the accountability chain for GBEs (though there has been some success in practice in keeping business and a growing recognition in many quarters of the good sense of the view). In the past there seems to have been a presumption that audit is just another service like tax advising or payroll preparation by a sub-contractor which should be bought by a commercially-oriented government organisation on price and on other services provided, with little weight placed on the peculiar circumstances of GBEs or on the role of the public's auditor in protecting and informing the ultimate shareholder (as well as the Executive). I imagine that this reflected a wish to have the CBEs as commercially oriented as possible (which I support), despite the reality that they must make sure that their actions reflect Government policy. I very much hope the compromise reflected in the JCPA approach (and, indeed, my additional compromise) will be found acceptable.

The private profession recognises the difference in relation to government organisations. A recent joint submission by the Australian Society of Accountants and Institute of Chartered Accountants to the Senate Standing Committee on Finance and Public Administration stated:

It is suggested that the accountability requirements must be even more stringent in the case of government companies having regard to their additional responsibility to the public in general.

The bottom line for me is that, without confirmation of a continuing and effective accountability role for the Auditor-General where all government activities are concerned, the long-term effectiveness of the Westminster system of accountability is in doubt.

The Joint Committee of Public Accounts clearly recognised this danger and Report 296 contained two important proposals to arrest the erosion of accountability. Firstly, it

recommended new audit legislation which would affirm that the Auditor-General is the external auditor of all Commonwealth Government bodies and organisations in which the Commonwealth has a controlling interest. This would set the mandate. But in order that the Audit Office provides the sort of service that I believe is required, it is necessary also to bring into play a second recommendation for the new legislation which would define the Auditor-Generals authority to settle the terms and conditions of employment of AAO staff. (This could not, of course, mean giving me a blank cheque.) This is consistent with the reform process in which we seek to play a positive part.

In supporting the Committee's recommendations, I am aware that there is room for private-sector auditors in assisting with the public-sector audit function. The Committee also recommended that there was value to be had from improving the AAO's relationship with the private sector. In particular, their report recommended that I

- have some discretion to contract private-sector auditors to undertake audits on my behalf, and
- appoint an advisory committee on audit practices and standards. This committee, made up of private-sector representatives, would provide technical advice to the AAO to ensure the Office's practices and standards were formed with knowledge of private-sector practices, without necessarily adopting those.

I have already acted on both of these recommendations and the other recommendations made by the Committee in regard to the AAO's relations with the private sector.

A portion of audit work has been contracted-out to compensate for the tight resource situation the AAO finds itself in. I hope that the contracting may also allow us to redirect some of our limited resource capacity towards performance audits. In the past performance audits have proved to be of great interest to Parliament and its committees because of the substantial benefits they can offer in meeting our common objective (which we share with the Executive) of improving the effectiveness and efficiency of public-sector administration.

It is relevant to point out that the sub-contracting of our audit work does not necessarily adversely affect public accountability concepts, as the Auditor-General's relationship with Parliament is still maintained.

## **PERFORMANCE AUDITS**

Another aspect of the mandate that was considered in depth by the JCPA was the importance of performance auditing, and in particular efficiency audits, to the government audit mandate.

Efficiency or value-for-money audits were introduced into the Commonwealth sector after the Royal Commission on Australian Government Administration recommended:

If ... departmental managers are to be given a clearer responsibility for their managerial functions and greater freedom and discretion to perform then it will

be more important that the quality of their performance should be subject to critical review.<sup>1</sup>

While the efficiency audit process has been constantly improved upon since the Royal Commission, this original justification is still seen as valid and the JCPA recommended that the Auditor-General should continue to have responsibility for efficiency audits.

The Committee also looked at the results and effectiveness of the AAO's efficiency audits and concluded that, while some audits might not have been as successful as hoped, efficiency and the smaller project performance audits had made useful contributions to improved Commonwealth-sector efficiency and effectiveness.

In fact, the Committee was so concerned about performance auditing that no fewer than 17 recommendations were made in this area, including recommendations that efficiency audits of statutory authorities and government-owned companies be undertaken and the percentage of AAO resources devoted to efficiency audits be significantly increased, to around 50 per cent.

The percentage of resources I could afford to allocate to efficiency audits has been one of my and my predecessors' greatest frustrations. Our mandatory financial statement work imposes an overwhelming requirement on our resource allocation, severely handicapping our ability to undertake efficiency audits. We have been doing what we can in terms of productivity gains, including implementing substantial changes to our organisation structure and task management and reviewing efficiency audit procedures. Without the improvements recommended by the JCPA in the AAO's resource position, it is highly doubtful that any significant improvement in performance audit coverage can be achieved and certainly nothing approaching the 50 per cent of resource utilisation for efficiency audits recommended by the Committee.

One recommendation made by the Committee was that I should consult with Parliamentary Committees on topics for efficiency audits. I have taken steps in this regard and am always most interested to seek the views of Parliament's Committees and discuss with them the work of the AAO. Initial discussions were held recently with representatives of the House Committees and we are looking towards providing Committees with an information package regarding the conduct of efficiency audits and the role they play in the overall audit mandate.

## **THE AAO'S RESPONSE**

The AAO has not been idle in responding to the challenges it is facing from these changes. To be honest, competitive pressures have hastened and strengthened our efforts to achieve maximum efficiency and a high level of service. Our ability to react, however, has been limited by constraints placed upon the AAO that are not present in comparative

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<sup>1</sup> Royal Commission on Australian Government Administration, Report, AGPS, Canberra, 1976, chapter 3.



private-sector audit firms with which we are in competition, or even in the revamped government business enterprises.

Initially I felt I should hear what the immediate clients thought about the Office. I met with Ministers, Departmental Heads, Chairmen and Board Members of Statutory Authorities, GBEs and SMAs wherever possible, as well as with the private sector.

The views that I got included some tough criticisms as well as very positive support. For my part, I tried to 'sell' the positive value of the AAO. I came back to the office and with my staff reviewed where we were and where we should go and how we should get there. We have put our backs into trying to meet legitimate criticisms well before we were confronted by Report 296. I don't have any doubt about our ability to meet the demands placed on us if given the chance provided by that report.

At a practical level, the AAO's reaction to the JCPA's recommendations has been to implement as many of the recommendations as possible, within present constraints, while addressing our own continuing program of reform.

These reforms include (I have mentioned some already):

- revision of our corporate plan in cognisance of the JCPA's recommendations and the day-to-day challenges facing the Office;
- restructuring of our task management structure and work methods to provide improved client service and increased productivity from present resources, an aspect we refer to as the 'audit manager concept';
- introduction of state of the art audit planning and control management systems again directed at increasing productivity;
- establishment of advisory committees whose private sector members will provide new perspectives on the AAO's strategic direction and audit practices and standards; and
- fostering relations with the private sector accounting bodies and audit firms including sub-contracting of audit work, promoting staff interchange schemes, increased AAO involvement in professional educational activities and negotiating with the Institute of Chartered Accountants to have the AAO accredited as a training centre for admission of staff to membership of the Institute.

We have also continually revised our procedures for the production of audit reports. Previously reports on regularity and project performance audits have been incorporated into consolidated biannual reports. Efficiency and special audits were the only audits reported and tabled separately. To ensure audit reports are more timely, commencing with the 1989/90 year major regularity and project audits will be reported immediately after an audit has been completed, rather than waiting for the consolidation of the audit results into a biannual report. We hope that a short, sharp report will be assimilated and appreciated more readily, relieving Parliament and the Committees of the task of wading through lengthy biannual reports and perhaps allowing better scheduling of any hearings.

A regular report on audits will be issued as a consolidated overview of portfolios — including of audits reported separately and the results of less substantial, but still important, audits.

This change, part of an evolutionary process, follows one made six months earlier (April 1989) in which we grouped audits according to the portfolio breakdown followed in the Budget Papers, which followed our introduction in the September 1988 Bi-annual Report of an overview aimed at putting into context and to classify our findings as good, bad or indifferent.

Management and boards of our clients, Ministers and Parliament have been briefed on the current directions of the AAO, the challenges it faces and the importance to everyone of the JCPA's recommendations. It is hoped that the improvements we have implemented will provide further evidence of a lean, professional organisation and improve perceptions of the AAO that are in some areas more appropriate to an AAO of the past (or to one which never existed). We have done what we can. Without support from the Executive and Parliament for the recommendations of the JCPA, the central difficulty of an under-resourced AAO, not able to compete in a seller's market for professional staff, remains a limit on the effectiveness of the audit function.

## **THE FUTURE**

The Joint Committee of Public Accounts Report 296 will be seen in years to come as a most significant contribution to the debate on executive accountability, the role of the Parliament, and the essence of our democratic process. The recommendations made in the report offer benefits to all: they preserve the accountability chain, provide extra revenue for private-sector auditing firms, keep the pressure on the AAO to provide a high standard of service, and strengthen our relationship with the Parliament.

In accordance with the procedures adopted for reacting to committee reports, the Government is preparing a response to the recommendations of Report 296. I understand a paper was drafted for possible consideration in the Budget Cabinet but other priorities intervened. For my part, I have prepared and submitted for the Cabinet my comments on the recommendations, which you would have gathered from what I have said here today generally support the Committee's recommendations. I hope that the Government will see merit in supporting an effective Audit Office from both the Executive's and the Parliament's perspective. In this context I should make it clear that we understand and appreciate the Government's economic imperatives.

It is important, however, that we overcome any perceptions that may exist that the provision of additional resources to the AAO would be a sunk cost and recognise that those resources, particularly where efficiency audits are concerned, will produce savings through improvement in the efficiency, effectiveness and accountability of public sector administration.

As I said earlier, the Parliament is the Auditor-General's ultimate client. It is important we have an effective working relationship and that is something the AAO strives to do well, particularly in providing assistance to Parliament's Committees.

If we are to capitalise upon the valuable consensus gained by the Joint Committee and ensure the effectiveness of the Auditor-General's independent accountability role, Parliament and the Government need to support the recommendations of the Joint Committee of Public Accounts. After all, without mutual support and pursuit of common objectives the foundation of an effective relationship between 'allies' is very much at risk.

# United Kingdom National Audit Office

## Summary of Funding and Staffing Arrangements

### Funding Arrangements

1. Under section 4(2) of the *National Audit Act 1983* the C&AG is required to present Estimates each year to the Public Accounts Commission, not the Treasury.
2. The Public Accounts Commission comprises the Leader of the House of Commons, the Chairman of the Public Accounts Committee (PAC) and seven other Members of the Commons, excluding, Ministers.
3. The PAC and the Treasury are informed by the C&AG of the Estimates before they are presented to the Commission. The PAC normally takes evidence from the C&AG and produces a report; the Treasury prepares a written submission to the Commission.
4. The Commission examines the NAO Estimates, having regard to any advice from the PAC or the Treasury, and presents it with any modifications to the House of Commons. The Treasury is then authorised by Parliament to make the necessary issues from the Consolidated Fund.
5. The NAO Estimates are included in the Treasury's Public Expenditure Survey forecasts and the Public Expenditure White Paper each year.
6. The C&AG is therefore subject to broad financial control by Parliament. '... In particular the Government and the Executive may only influence the Estimate by making representations to the Public Accounts Commission. All experience since the passing of the 1983 Act has been that, while the Treasury do comment on the detail of the Estimate, the Commission makes up its own mind on the C&AG's proposals ...'.
7. Apart from the NAO Estimate, only one other is outside the direct control of the Executive, being the Estimate for the House of Commons Administration, which is also presented for Parliamentary approval.

### Staffing

8. The C&AG has the power under the *National Audit Act 1983* to appoint such staff to the NAO as he considers necessary.
9. Any significant increases would have to be justified before the Public Accounts Commission, which would have the final word through its power to adjust the cash provision.
10. The C&AG also determines the remuneration and terms and conditions of service of NAO staff. He is required to have regard to the desirability of keeping remuneration and terms and conditions broadly in line with the Civil Service.

11. Taken overall, NAO terms and conditions are said to be better than in the Civil Service.

12. NAO staff have to resign to take up a permanent post in the Civil Service — and vice versa. Two-way secondments, usually for a specified period (eg. 2 years) are available, and the NAO may take staff up to Executive Officer level on loan from Civil Service Departments.

13. The employment powers under the 1983 Act enabled the C&AG to introduce a Performance Related Pay Scheme for qualified staff in 1984. Its objectives were to strengthen motivation of existing staff, to attract and retain qualified staff, and to bring pay level more into line with competing employers.

14. ‘This has improved significantly’ the performance of staff and has helped combat recruitment and retention difficulties — but has not solved the problems completely.

# **New Zealand Audit Office**

## **Summary of Proposed Funding and Staffing Arrangements**

### **Funding Arrangements**

1. The enactment of a new Public Finance Act is said to be imminent. It contains new funding arrangements for Offices of the Parliament, including the Audit Office. The arrangements are to be as follows:
  - (a) Before the start of each financial year the Chief Executive of each Office of Parliament, including the C&AG, will submit to the House of Representatives an estimate of revenues, expenditures, cash flows, outputs and opening and closing financial position for the Office for the financial year.
  - (b) The Estimates will be referred to a new special standing committee for examination as it sees fit. The Committee will have the ability to call for expert advice, including from the Treasury.
  - (c) The Committee will be chaired by the Speaker and include 3 members of each of the government and opposition parties, excluding Ministers.
  - (d) The standing committee will recommend the Estimates to the House which, if it agrees, will commend them to the Governor-General, by way of an address, and request their inclusion in an Appropriation Bill for the year.
  - (e) The Appropriation Bill containing the Estimates for the Offices of Parliament will be dealt with by the House in accordance with its normal procedures. That means the Estimates are liable to further select committee examination and debate in the House.
  - (f) Once the Appropriation Bill is passed, the resultant votes for the Offices of Parliament will be the administrative responsibility of the Speaker rather than a Minister.

### **Staffing Arrangements**

2. The other legislative initiative which is expected to pass later this year, and for which there is the support of the House's Finance and Expenditure Committee, is the enactment of a separate Audit Office Act. This, in part, would break the connection with the Public Service, and vest in the C&AG the rights, powers and obligations of an employing authority under New Zealand's industrial relations legislation.

# **Office of the Auditor-General of Canada**

## **Summary of Funding and Staffing Arrangements**

### **Funding Arrangements**

1. The essential elements of Canada's Constitution Act governing the appropriation of moneys are that the appropriation must originate in the House of Commons and the purpose of the appropriation must be recommended by the Governor-General, representing the executive branch.
2. Estimates of all ministerial portfolios are reviewed by the Treasury Board. The Minister for Finance is the responsible Minister for the Office of the Auditor-General (OAG). In constitutional terms the government has complete control over the Appropriation Act but by convention this control has not been exercised with respect to the Audit Office appropriation.
3. Estimates may be reviewed by parliamentary committees. For the past two years (1988 and 1989) the Estimates of the OAG have been reviewed by the Public Accounts Committee which takes evidence directly from the Auditor-General and his staff.
4. Since the enactment of the Financial Administration Act in 1977 the Auditor-General has prepared his own Estimates, and to date the Treasury Board has not exercised its authority to modify these Estimates.
5. In practice, the Government's budgetary policies have not, to date, influenced the funds made available to the OAG, but in times of restraint the Office has agreed to lapse a proportion of its appropriations. As a policy, the Estimates proposed by the Office for its use are calculated to be the least amount necessary to satisfy its statutory duties.
6. The Auditor-General Act empowers the Auditor-General to report to the House where, in his opinion, the Estimates submitted to Parliament are insufficient to allow him to properly conduct his duties. However, the House has no power to remedy the matter as it can only provide supply on the recommendation of the Governor-General.

### **Staffing Arrangements**

7. The staff of the OAG are public servants appointed under the Public Service Employment Act and remuneration levels for OAG staff are generally the same as for similar groups elsewhere in the Public Service but for senior management categories levels are generally higher than equivalent groups.
8. There are no restrictions on staff moving between the OAG and other parts of the Public Service.

9. The OAG has not experienced problems with losses of staff to the private sector or other areas of the public sector because its terms of employment are “largely competitive with the private sector”.



## DISCUSSION

**Question:** could we have something about those examples where ‘risk management’ became ‘risky management’, where cutting out controls turned out to be more costly than having the controls in the first place?

**Mr Taylor:** I’m not going to at this stage respond with detailed examples unless somebody from the Audit Office in the audience wants to do that. What I would have to do is go back and refer to some of our published reports. I would not want to go beyond that. What I wanted to give you, well I did want to give you one example. It’s never been reported, and I don’t think it’s an important thing, but we were told at one stage that we should not worry about checking Bills which were I think for less than we won’t use a figure because I don’t want to give it away — below \$X. Almost within three months, people from right around the world, Australian Government Departments, were receiving bills or just under that amount — fraudulent bills for services that had never been provided.

Obviously in that particular situation you have to keep an eye on it. Of course we then got a circular which said ‘By the way don’t pay bills for these particular organisations’. Of course then they could move off. I mean the point I’m making is not to criticise risk management, but merely to say that one has to then watch the consequences as a situation obviously existed where the cost of checking bills under a certain amount was greater than the potential error. But once the nasties found out about the lessening of scrutiny they moved in large numbers. Then you have to adjust and of course that was done by those particular set of responses.

It isn’t quite as easy as people like to make out. The essential point that I would like to make is that what one does is one ‘loosens up’. I think that is entirely appropriate, having looked at it, and it seems sensible. That is exactly what we are doing with our own audit manager. We are saying we are not going to check at this level anymore, we will check at that level. But we would be less than professional in our approach if we were not to beef up our professional review area so that we could then do snap checks, peer review into the workings of that lower level of responsibility at a lower point. One gets the impression that some people think that risk management is all about saying ‘well this is what we do, now you forget about it, and off you go’. Any management is all about making sure that what you are doing is still appropriate.

**Question:** Given that independence is linked to security of tenure, and given that the present government is currently taking steps to dismantle the Interstate Commission which has constitutional tenure, I wonder how independent you can afford to be?

**Mr Taylor:** Well, I’m not 21 anymore and I don’t expect to have another Government job, and indeed I don’t want another government job. I’m not really at risk of wanting to please someone so that I would get later preferment. Indeed it seems too common now for Auditors’-General particularly because they are appointed until they are 65, for them not to be appointed when they are 21, and I think that that is very sensible.

The Constitution is very difficult to change. The Audit Act is not so difficult to change but it would require both sides of Parliament to have me booted out and it would have to be for due cause. I have never lost any sleep over that and indeed I would go further, I

believe that any auditor General worth his or her salt would not think for a moment about the possibility of being dismissed, even if you were on a contract.

It doesn't enter my head and I doubt whether it would have entered any of my predecessor's heads. I suppose that we are used to the concept of Public Service, I believe that it is a very important vocation, or I wouldn't still be here. The repercussions I believe, on a government for wantonly dismissing someone in a position like mine would be enough to deter it, assuming it could even get it through both Houses. But there has never been any indication, I've never had the slightest worry. I mean my relationship on an individual level with Ministers is excellent. You may say therefore I am suspect, but I am still, I am sure, not entirely the most popular person around, because I am complaining about what I see as a diminishing linkage in accountability with Government business enterprises.

I started off doing that privately to Ministers then I became, as I must if I am going to do my job properly, more and more public, but I hope always within the bounds of good sense, rational debate amongst individuals and bodies and attempting to come to a resolution that is sensible for us all. Having said all that I think that I would be very concerned if judges could be sacked because people did not like a particular decision say in a zoning of a town. I would be very concerned if Auditors'-General could be sacked. Therefore I think it is wise to have these impediments so that a sudden rush to the head doesn't result in your head rolling before people have thought more sensibly about it. I hope that answers your question.

**Question:** Mr Taylor, do you believe that it would be appropriate for Government Departments and Authorities to employ auditors from the private sector as internal auditors? If you do agree with that, how would we meld their work into the work of your office?

**Mr Taylor:** Yes, thanks that is a good question. The simple answer is that we are so short of auditors and particularly so short of auditors that are commercially experienced — by that I mean who are used to accrual accounting rather than cash accounting, which has been the norm in the Government — I don't think there is any choice but to be contracting out, including an internal Audit. We would prefer it if the external Auditor, and I think everybody would, if the external Auditor wasn't also doing the internal audit. I mean one wants to get some 'arms lengthening'.

I'm also concerned about it as a long-run thing because I believe that internal audit provides an extremely good training ground for people going to the top of a particular organisation. Now that may sound strange to many people, but when you think about it, it is quite logical.

The internal audit area is increasingly being used a management consultancy type operation. Now that in itself is a danger because we don't want to run the risk of ignoring the normal traditional audit function in financial statements. But what better training ground, what better way of finding out what is going on in your own operation than to have your own gifted people being pushed through it, and giving you an insight to what is going on?

It's absolutely essential that internal audit report to the Chief, that it not be sifted through whoever runs the accounting or finance area, in my view — that it does provide the chief CEO with another eyes and ears, which is essential. Why would one want somebody outside to be providing that eyes and ears? I just don't think that it is a very sensible long term procedure. I think it is better to get your own, but if you can't, and that seems increasingly to be the situation, it makes sense, and I do not object to it, to in fact work with private sector internal auditors and we do quite well.

**Question:** I have a two part question. The first part is 'Do you have a formal mechanism for evaluating the quality of audit?' Particularly, related to an earlier seminar, I think it was a Mr Michael Sharp was referred to as the 'auditor to the auditors'. And the second part: 'What is the future of Efficiency Audits as you see them within the Audit Office, and particularly its relationship with Department of Finance?'

**Mr Taylor:** Very good questions today. Michael Sharp is indeed our External Auditor. I believe that there is nobody in the Commonwealth which is more subject to external review than the AAO. We've had some 12 months of review by a Parliamentary Committee. If people think that it is an easy thing for the Auditor to be interrogated by the Public Accounts Committee, I really do have news for you. It was not an easy thing for me personally, nor for the organisation. We were not let off lightly at any time by that group.

The external auditor, Coopers and Lybrand, have taken over from a previous audit firm, which was doing it I think for the previous eight years. Again, there I was up in Sydney talking with Michael Sharp earlier last week. He's not been at all restrained in telling me things that he thinks that should be done better. He is to meet tomorrow with the Minister for Finance and the Secretary of Finance and no doubt he will be telling them whatever he believes he should tell them.

We certainly are under review. Every time we put out an efficiency audit or a performance audit or a project audit, we are reviewed. Some members of the Committee are not impressed or they think we are attacking some policy or some Minister or some bureaucrat unfairly, they get stuck into us. The individual bureaucrats are certainly not backward in defending themselves, putting up smoke screens at times and even genuinely thinking we're wrong.

If we can't get anywhere there we go to senior management. We might go, if its a business enterprise, to the Audit Committee, then to the Board and then perhaps to the Minister and then to the Parliament. It is a sequential interaction all the time, so by the time we put in a report to the Parliament it has been pretty thoroughly thrashed over — often, I might say, in parenthesis, the things that have been earlier denied completely as we progress through this are finally admitted to and corrected, and of course, 'we were going to do it all the time' the management is made very interesting.

On quality control generally we also have an Internal Audit Practices group who are responsible, if you like, for the intellectual integrity of our audit performance. They review that, they support me as a member of the Audit Standards Committee of The Australian Accounting Research Foundation, where I meet with private enterprise people and we recommend audit standards generally. As I have mentioned we have just established a Technical Advisory Committee which comprises in fact some of the top

technical people from the big five. They're sitting around with us looking at what we are doing as well. So my very honest belief is that we are very much reviewed, very much.

Now did that get to the point that you were seeking. Good.

**Question:** I would like to just draw you out a bit more about the relationship between the Auditors-General and Government Business enterprises. Let me put a proposition to you. The accountability of some institutions to Parliament, for instance, is very different than others within the Federal bureaucracy. For instance, the accountability of QANTAS to Parliament would be on a much less degree than, say, the accountability of the Department of Social Security. Given that proposition isn't that therefore a different role for the Auditor General in relation to the enterprises that are at that end of the spectrum rather than the ones at the Social Security end of the spectrum. Related to that, is an organisation like your own, which has resource constraints isn't part of the solution to resource constraints some reduced involvement with business type enterprises that are Government owned?

**Mr Taylor:** There is a point there and that indeed has been well covered by the Joint Committee Report which says that we should not be so involved, within my terms, with the commercial end of the scale as in the non-commercial end. I agree completely with that view. The closer the government organisation is to the market the less need there is for some surrogate analogue or artificial competitive pressure to be put on it. I see myself actually as trying to put into the protected parts of the public sector, the more protected parts of the public sector, some analogue of competitive pressure, some pressure for them to perform — to look at the bottom line, to be concerned about outcome rather than input. So I do not disagree. Of course yes we should put more of our effort into the most protected areas where the competitive forces are absent, totally. Completely agree.

Now we get to QANTAS. QANTAS is in fact not in the free market at all, not at the moment anyway. It's Government owned, it has no private share holding and, as I have said earlier, the money that supports it comes from you, not because you choose to invest in QANTAS, rather than say Continental Airlines or British Airlines or whatever have you, but because you pay taxes. It may well be run well and all the rest of it but it is not an analogue of TWA in America. It is not owned by the private sector and it is not just out there in the market. It cannot go 'belly up' as TWA can, as Peoples' Express did, without the Government deciding that that will happen.

The stock market has little or no effect on QANTAS at the moment, it has no effect on QANTAS at the moment. There is no possibility of Sir Peter Ables coming in and making a hostile takeover, he can't do it.

If in fact there were 'bum management', God forbid, one of the powers of the market is that the share price goes down and the predators can move in and they can throw out the bum management and they can replace it with people who may regard as better. If they don't work the share price goes down and we have the same cycle. Eventually they go belly up. Now I saw it happen in the States over three and a half years. It won't happen to QANTAS. There is no choice for shareholders, I have mentioned that, there is no bankruptcy and there is a Government behind them. So I still maintain that there is a

need for the public sector to be more accountable because of the lack of market, the lack of, indeed the institutional investors.

The only time institutional investors are really interested in QANTAS, and when they do their reviews and what have you, is when there is a prospect of privatisation. So there are a lot of things that are quite appropriate to the commercial sector that do not apply. Therefore, I maintain very very strongly that if we are to allow the public sector corporations to pretend that they are in the private sector by lessening the accountability requirements to the Parliament which after all is the source of the money, I mean we are the source of the money but Parliament is the way that they get it.

We are making our public sector managers more protected than private sector managers. Now think about it, is that what we want? Do we want public sector managers more protected than private sector managers. The whole thrust of where we are going is to make public sector managers more accountable, more responsible for their results, more concerned with output, less concerned with process and that isn't the way to do it in my view — to make them more protected.

Would you like to follow up or have I missed something out? Would you like to draw me out more? I mean there is just such a lot of nonsense talked about this particular issue. I mean the whole point about giving managements more freedom is that they have to be more accountable. It's got to be both otherwise its just license.

**Question:** Don't let me stop you. You are going very well. In fact I perhaps need to apologise in advance for this question because I think we have given you quite a third degree, a real grilling and I have been quite impressed with the commitment which you're expressing to the peculiar role of the great office of Auditor General. But like a good parliamentary officer, and I am a parliamentary officer, I am sitting listening and wondering how you fit into the constitutional scheme of things. A moment ago you mentioned decisions of the judiciary and earlier when you talked about independence a thought went through my mind that the only body which has the independence which you're describing, from the Parliament and from the executive, is in fact the Judiciary. Are you seeking for the Audit Office that kind of status, that kind of separation from the powers in this state?

**Mr Taylor:** Well I think I've worked far too long in the central co-ordinating agencies, Prime Minister's Department, the Public Service Board and I become slightly worried when anybody wants to get totally independent. The Judiciary I think are in a particular position but even they can't have unlimited resources. They complain about lack of resources. The only difference that I have with Judiciary is that I am not paid as much as the judges. That is the only difference. So I don't really feel any need to argue particularly one way or another there. I really don't have any personal worries about my independence. I have said on the record that if I find that resources become so constrained that I'd no longer feel that I can do my job properly, I will do three or four or five or six Efficiency Audits and nothing more. I'll qualify all the accounts, say that I don't have the resources to do them all and the efficiency audits will be of the Prime Minister's Department, the Department of Finance and the Treasury.

What I am really saying is that is that I feel I do have a lot of freedom and I do have total independence. I've never had, I mean I've been to some Ministers from whom I

expected to get some pressure. I know already that I'd had more than a little bit of pressure from an area and I expected with cause that the Minister would back that up. I went to see him, at my suggestion, and he couldn't have been more helpful — couldn't have been better, couldn't have been more supportive of my independence and what I was doing in his portfolio which was going to cause him some problems.

The reality is that in their hearts of hearts the Executive know that it is better to have me, or somebody like than not to, and that if they do have to have someone like me, it is better to have them independent and apolitical and totally positive, you know, in trying to improve things, rather than just be negative and say 'this is wrong' and 'that's wrong' and all the rest of it. I mean what I try to do is to get managements that are as interested in improvement as I am to agree with me about things that we are going to do to improve things. Independence hasn't been a problem, as yet and I don't think it ever will be.

I don't really buy the resource argument totally which is weakening my case a bit because I find it is causing me problems. I forgot, yes — Efficiency Audits. I am soon not going to be able to do any. That's literally correct because they take a lot of time. One has to go through a certain procedure, one has to get the evidence like a court. One has to then make sure that people accept that what you are saying is right or that you are able to answer them if they continue to say that it is not right. Now, part of putting out these twenty little reports soon is to try and meet the problem that, shortly, that I am not going to be able to do any Efficiency Audits. Now, rather than sit down on my bottom and say that I am not going to do any, I'm searching for other ways of getting the same result. So that we are now, with some prodding from the JCPA, looking to do Efficiency Audits in six months.

One of the problems that I have is that I say to my people, by the way we think we can do it, we will have to narrow the focus, we will probably give up some trawling expeditions where we might get higher return, its a shame but we'll perhaps be able to do it. The worry I have though is that I can't convince my people that they should act more as management consultants because they say 'but we need the evidence', and that takes time.

What I would like to do is go into an organisation, have a quick look around, talk to people about their problems and what have you and then come up with, if you like, a 'McKenzie type' 'round about — round off' saying, 'Look, we think your major problems are in these areas and you should address them in these ways and use us as a consultant.' Only we wouldn't say it. We can't do that, and we will help you do it. We would say 'use somebody else as a consultant and get them to help you do it.'

I would be quite happy to do that and then perhaps come back in six months and see whether anything has happened. That's a real possibility. There is a lot of resistance to that in the organisation because it does not like to say things that it cannot prove. The reason why it doesn't like to say things that it cannot prove is that if it gets up in front of a Parliamentary Committee once and is shown to be not well-based in its recommendations, a lot of our leverage, our power will have gone. So it gives me a lot of worry, but as you can see that I am trying desperately to improve productivity, increase productivity.

Thank you very much for being so nice an audience I'm sorry about the rather disjointed presentation. I probably shouldn't ever prepare a speech because I know so much about this now I am inclined to go on a bit. Thank you.

**Harry Evans:**

Well on behalf on the assembled group I thank you very much for that. It was very interesting and informative and I am sure that we have all benefited by it. The full paper will be in the "Papers on Parliament" series, an excellent, I can't say well-selling, but an excellent series. Thanks very much.