Auditors-General: Cuckoos in the Managerialist Nest?

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The role of Auditors-General has expanded in recent decades, particularly with the development of performance auditing. Performance auditing originated in the managerialist concern for monitoring results, but in some respects Auditors-General have found themselves at odds with managerialism, particularly where outsourcing and privatisation have reduced the level of public accountability. Performance auditing has also increased the potential for Auditors-General to clash openly with elected governments, though for the most part they confine their scrutiny to the activities of public servants. Auditors-General have more authority to confront governments over matters of propriety than over efficiency and effectiveness issues.

This paper examines the evolving role of Auditors-General in Australia, at both Commonwealth and state levels, focusing particularly on their growing contribution to public accountability and their ambivalent relationship with some aspects of public sector reform. In a number of different jurisdictions, Auditors-General have emerged as highly effective champions of public accountability, standing up for values such as transparency, probity and good governance in the face of recalcitrant or evasive governments and officials. Along with parliamentary committees (to which Auditors-General are closely linked) and the various ombudsmen and administrative tribunals, Auditors-General are important agents of public accountability, extending their scrutiny well beyond their traditional focus on financial compliance. They have become central figures in the new, more pluralist version of public accountability, which seeks to supplement the traditional chain of ministerial accountability with alternative channels of accountability (Firm 1993; Mulgan 1997a). Using their newly conferred power to conduct performance audits, Auditors-General have been called on to investigate the efficiency and effectiveness of

government activities while still maintaining their core concern for financial probity.

This expanded role has been most publicly visible in a number of open clashes with governments, most notoriously in Victoria where the former state Auditor-General, Chas Baragwanath, was critical of the methods which the Kennett government adopted in implementing some of its favoured initiatives. For instance, he raised doubts about the financing of the Grand Prix (for example, *Report on the Finance Statement 1994*) and about the level of payment received from Crown Casino for additional gaming tables (*Report on Ministerial Portfolios 1996*). He questioned the use of government funds to pay for party political advertising (*Marketing Government Services: Are you being Served? Special Report 1996*) and exposed serious irregularities in the outsourcing of ambulance services (*Metropolitan Ambulance Services: Contracting and Outsourcing Practices Special Report 1997*). In response, the government proceeded to severely curtail the Auditor-General's powers, corporatising the audit office and forcing the Auditor-General to contract out all government auditing, thus depriving him of effective control of the audit

process. This attack in turn produced a public backlash in support of the powers and independence of the Auditor-General that became one of the leading issues of the 1999 state election campaign. The newly elected Labor government not only restored the former powers of the Auditor-General but also, for the first time, enshrined them in the state constitution, thus leaving the office in a stronger position than ever.

While Victoria has provided the most colourful example of the Auditor-General's role as champion of public accountability against overweening government, it is far from unique. Not far behind has been NSW, where the former Auditor-General, Tony Harris, provoked severe government displeasure on a number of occasions, most notably in his criticisms of the handling of infrastructure contracts (for example, *Private Participation in the Provision of the Public Infrastructure 1994: Review of Eastern Distributor 1997*). In South Australia, too, the current Auditor-General, Ken Macpherson, has been embroiled in fierce political controversies over the outsourcing of Adelaide Water (SA Water Corporation, *Special Audit 1996*) and the sale of the state electricity corporation (for example, *Electricity Businesses: Disposal Process in South Australia: Arrangements for Probity Audit and other Matters 1999*).

In the Commonwealth, for example, the most sensitive clashes with governments have been over questions of ministerial propriety, most notably in the 'Sports Rorts' affair where an adverse report from the Auditor-General on the record-keeping by public servants (*Community Cultural, Recreational and Sporting Facilities Program 1993*) led ultimately to the resignation of the minister, Ros Kelly (Uhr 1999:152–58). More recently, Auditor-General reports on ministerial conduct of the 'Federation' Fund (*Examination of the Federation Cultural and Heritage Projects Program 2000*) and the magnetic resonance imaging (MRI) rebate (*Magnetic Resonance Imaging Services 2000*), while officially exonerating the ministers concerned, at least provided Opposition politicians with potentially damaging ammunition. In the aftermath of the Sports Rorts affair, the then Auditor-General, John Taylor, came under heavy ministerial fire (Taylor 1996:148–49; Funnell 1997:92–93). The

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Coalition Opposition was quick to see the political benefit in befriending the office of Auditor-General and committed itself to strengthening its independence. The new *Auditor-General Act 1997* duly established the Auditor-General as an officer of parliament (s. 8(1)), a status that had been sought by Auditors-General for many years.

Open clashes with government, however, are exceptions rather than the rule. The great mass of government audit work proceeds routinely and relatively unnoticed as government agencies are found to comply with standard procedures or are recommended to adopt uncontroversial changes. Most Auditors-General keep a low political profile most of the time, recognising that their influence is often most effective if exerted in a collegial and trusting environment. Nonetheless, even if Auditors-General exercise their power more through anticipated reactions than open confrontation, the occasional public conflict serves to highlight the authority of the office on certain key constitutional issues. It also indicates the existence of potential tensions in the evolving role of Auditors-General as they move beyond traditional compliance auditing. The more recent requirement for performance auditing, from which the expanded functions of Auditors-General are mainly derived, arose as part of the managerialist revolution in public management. The managerialist emphasis on results and on accountability in terms of stated objectives provided a new role for auditors as assessors of results. However, while the assumptions of managerialism have given an increased importance to auditing, Auditors-General have sometimes found themselves in the position of managerialism's leading critics, particularly in relation to issues such as outsourcing and privatisation. What is the basis of this paradox and how do Auditors-General manage the tensions that it causes? Furthermore, though performance auditing, in theory, is confined to the assessment of administrative means towards policy goals, in practice it opens up the possibility for Auditors-General to become open critics of ministerial decisions. Again, what is the reason for this potential conflict and how do Auditors-General deal with it?

The office of Auditor-General dates back to the nineteenth century, when each of the colonies followed the UK precedent in setting

up an independent audit office to provide accurate financial accounts and to guarantee that moneys were raised and expended in accordance with parliamentary authorisations. When the Commonwealth was formed in 1901, an Audit Act establishing an Auditor-General's office was one of the first Acts of the new parliament. Though Auditors-General might make occasional complaints about inefficiency and waste (Funnell and Cooper 1998:280-81), they did so in the context of a concern with verifying accounts and preventing fraud and misappropriation.

The extension of the auditing role beyond compliance was part of a worldwide trend in favour of 'value for money' (VFM) or 'performance' auditing which began with the General Accounting Office in the USA during the 1960s and then spread to other countries, arriving in Australia during the 1970s. At the Commonwealth level, in the wake of the Coombs Commission, the Auditor-General's powers were formally extended in 1979 to include 'efficiency audits' (*Audit Amendment Act 1979*). A majority of states and territories have followed suit (the exceptions being Queensland, Western Australia and the Northern Territory). The underlying assumption of such auditing is that the activities of organisations, including public organisations, are to be assessed in terms of their capacity to achieve given objectives with the most prudent use of resources. Assessment typically focuses on the 'three Es', that is, 'efficiency' (as the most favourable ratio of outputs to inputs), 'economy' (as the most parsimonious use of inputs) and 'effectiveness' (as the fullest achievement of desired outcomes). Because issues of effectiveness are included along with the more resource-centred concerns of efficiency and economy, the term 'efficiency audit', as originally adopted by the Commonwealth legislation, appeared too modest in scope. In the new 1997 Act, it was replaced by the more expansive term 'performance audit' (eg *Auditor-General Act 1997*, s.15), a term also used in the ACT (*Auditor-General Act 1996*, s.12) and in Victoria (*Audit Amendment Act 1999*, s.12). In these legislative prescriptions, the trio of Es (economy, efficiency and effectiveness) are not mentioned explicitly but are to be inferred from the concept of 'performance audit' (though the Australian Capital Territory Act (s.12(2)) does specify an

additional, and unusual, criterion, that the audit should consider environmental issues 'having regard to the principles of ecologically sustainable development'). Thus, while Auditors-General, when conducting performance audits, lay no claim to deciding objectives or purposes (and thus usually eschew discussion of 'appropriateness'), they do presume a capacity to tell whether given objectives have achieved their intended outcomes and have done so with the best use of resources.

Other jurisdictions use different, though equivalent, terminology. For instance, while the NSW Auditor-General regularly uses the term 'performance audit', the enabling legislation instead authorises the Auditor-General to conduct 'special' audits which 'determine whether the authority is carrying out those activities effectively and doing so economically and efficiently' (*Public Finance and Audit Act 1983*, s.36B(1)). Similarly, Tasmania allows the Auditor-General, when conducting a financial audit, to take into account any matter that affects the economy, efficiency or effectiveness of any government department or public body (*Financial Management and Audit Act 1990*, s.43(c)). South Australia, on the other hand, is more cautious, providing only for an examination of 'efficiency and economy' (*Public Finance and Audit Act 1987*, s.31), thus avoiding considerations of effectiveness. Of the other states and territories, Queensland countenances only 'an audit of performance management systems of a public sector entity' (emphasis added) rather than the normal performance auditing (*Financial Administration and Audit Act 1977*, s.80, a formula also adopted by the Northern Territory (*Audit Act 1995*, s.15). Western Australia provides for no more than the standard audit of financial and legal compliance (*Financial Administration and Audit Act 1985*, s.79).

Performance auditing did not arise in isolation but was part of a wider movement in public administration that was aimed at applying successful private sector management approaches to the public sector and which has since become known as 'managerialism' or the 'New Public Management' (NPM). The original thrust of this movement was to move public servants away from tightly controlled, process-driven administration to a more flexible, results-

focused style of management. 'Managing for results' and 'letting the managers manage' were the twin catchphrases that signified the new imperative to give managers freedom to manage in accordance with stated objectives (Davis 1997:213). Under the new approach, control over public agencies was to be exercised in terms of *ex post* monitoring and performance measurement rather than through compliance with *ex ante* rules and directions. Emphasis was thus placed on the articulation of clear objectives and on developing accurate and independently verifiable means of assessing how far these objectives had been achieved. The more measurable and unambiguous the indicators of performance, the more agencies and managers could be held accountable in terms of results and therefore liberated from the deadening influence of input and process controls.

The archetypal example of objectively measured performance is the financial audit. In an external audit the auditor seeks to verify an organisation's published accounts to see whether they are an accurate statement of actual income and expenditure for the purpose. Though accounting theorists may point to an inherent subjectivity and even arbitrariness in accounting conventions about what accounts actually measure, in practice a financial compliance audit is a relatively straightforward process. Accounts are either accurate or inaccurate. Auditing thus provides a model for the assessment of performance where there is agreement on what constitutes success and about how it is to be measured. In so far as management performance can be reduced to the pursuit of clearly defined objectives measurable by clearly measurable performance indicators, then audit is the appropriate process for verifying the achievement of these objectives.

These assumptions of instrumental rationalism underlying much of the NPM have naturally disposed reformers towards audit as the model of external control (Hood 1991:8; Power 1997:Ch. 3). Auditors, in turn, have been keen to see their services appreciated and their roles extended. Hence the 'audit explosion' that has accompanied the attempted restructuring of the state (Power 1994). When governments purchase rather than provide (or steer rather than row), audit becomes the obvious means of controlling the new hands-off relationships between governments and the actual providers

of services. Within agencies also, where central management directs the activities of others within the organisation through the setting and monitoring of specified targets, a process of 'internal audit', whereby progress towards stated objectives is measured, has acquired increasing importance as a means of assessing and controlling performance. As in the private sector, government auditors have seen their role as requiring them to work closely with the internal audit system to encourage efficient and effective management (Barrett 1999:9; ANAO 1999:55).

However, Auditors-General have not confined their concerns to matters of economy, efficiency and effectiveness but have also continued to monitor for more process-related values such as probity, accountability and transparency. These latter values have always been associated with financial compliance audits. Such audits are undertaken with the purpose of detecting potential breaches of the financial laws and proper financial practice. In the words of the Australasian Council of Auditors-General, the 'Regularity Audit' includes 'the audit of the financial and other information in the accountability statements of an entity, the audit of systems of internal control, and the consideration of probity and propriety' (Australasian Council of Auditors-General (undated) 3.2) (emphasis added). As Auditors-General have moved into broader areas of performance, they have naturally extended their traditional concern for propriety in government to a wider canvass, becoming valued guardians of due process in the public interest (Barrett 1999:8). A focus on propriety and accountability has also been fostered by the close relationship of Auditors-General with their respective parliaments. Because parliamentarians see themselves as constitutionally obliged to scrutinise executive power and to hold governments accountable, Auditors-General, as parliamentary officers or agents, have also been encouraged to share the same values.

However, this concern for propriety and due process may set up tensions with the managerialist assumptions behind performance audit (cf Zifcak 1997). The NPM, with which performance audit is closely aligned, attempts to free the public service from an apparent obsession with due process. Following the example of the private sector, accountability in terms of inputs and procedures is to be reduced

in favour of accountability in terms of results, measured by the values of economy, efficiency and effectiveness. One of the main reasons for removing public service provision away from direct ministerial control has been to liberate managers from what is seen as an excessive accountability regime (Mulgan 1997b). By embracing performance audit and its instrumental assumptions, Auditors-General might be seen as enthusiastic advocates and allies of the NPM, assisting its attempt to reorient the public service towards a concern with results and efficiency and away from its burdensome concentration on process and procedures.

On the other hand, by upholding the importance of due process and transparency against the managerialists' concern for results, Auditors-General can be seen as swimming against the NPM tide (Taylor 1996:151-52; Funnell 1997:91-96). Particularly when managerialism in the 1990s moved more decisively towards the 'contractualist' preference for private sector provision (Davis 1997), Auditors-General became concerned about the loss of accountability and transparency consequent on outsourcing and privatisation. They complained that financial transactions involving public funds that had hitherto been open to scrutiny by Auditors-General could now be hidden behind the veil of 'commercial-in-confidence' (Barrett 1996:143; Funnell 1997:95). In this respect, Auditors-General often found themselves in the role of critics of the trend to hive off public service. Though usually careful not to attack the general policy so much as its implementation, their comments gave much comfort to the opponents of outsourcing and privatisation. Far from being the supporters of managerialism, they emerged as discordant cuckoos in the managerialist nest.

This tension manifests itself in a number of ways. In official descriptions of their role, Auditors-General are hesitant about how much prominence to give to process values in performance audits. Where the criteria applied in performance audits are legally defined (as in NSW, SA and Tasmania (see above), reference is to one or more of the three Es only. When the Commonwealth Audit Office (1998-99) defines the scope of performance audit, it too emphasises the three E's. The latest annual report defines a performance audit as:

An independent, objective and systematic examination of the operations of a body for the purposes of forming an opinion on whether:

- the operations have been managed in an economical, efficient and effective manner
- internal procedures for promoting and monitoring economy, efficiency and effectiveness are adequate; and
- improvements might be made to management practices (including procedures for promoting and monitoring performance) (Commonwealth Audit Office 1998-99:32).

Yet process issues are not entirely forgotten. Later on in the same section, when identifying the grounds on which audit topics are chosen, 'accountability' is slipped into the list of criteria.

Audit topics are chosen on two grounds:

- first, to focus on audits expected to have the greatest value-added in terms of improved accountability, economy, efficiency and effectiveness; and
- second, to ensure appropriate coverage of entity operation within the limitations of available audit resources (1998-99 Commonwealth Audit Office:33).

'Accountability' is a concept with multiple applications that conveniently straddles the managerial-process divide. It can apply to internal reporting (accountability to one's organisational superiors) seen as an aid to managerial control and improved efficiency and effectiveness. It is this sense of accountability that is emphasised by advocates of the NPM (Hughes 1998:234-36). On the other hand, and more commonly, accountability implies external accountability to agencies of review, such as the Audit Office itself or to parliament and the public. To add accountability as a separate concern of audit is therefore to suggest an additional interest in public scrutiny of agencies. This implication has been spelled out by the Commonwealth Auditor-General when commenting on whether the Australian National Audit Office (ANAO) could properly enforce the provisions of the *Financial Management and Accountability Act 1997* (s. 44) which requires chief executive officers to promote the 'efficient, effective and ethical use of resources (emphasis

added). Legal advice had indicated doubt about whether questions of integrity and propriety were of themselves matters of economy and efficiency and therefore proper subjects for an efficiency/performance audit. However, the Auditor-General has assured the Joint Committee on Public Accounts and Audit that the ANAO would look at ethical considerations as 'an endemic part of accountability' (Barrett 1999:8 and note 19). When the office moves beyond performance audit as such to the more general pursuit of 'good governance', as for instance in its *Better Practice Guides* (ANAO 1999:36-38), the ethical dimension can be more readily incorporated, for instance through recommendations about codes of conduct (for example, *Corporate Governance in Budget Funded Agencies 1997*; *Corporate Governance in Commonwealth Authorities and Companies 1999*).

That performance auditing lends itself more comfortably to managerialist than to process values is evident from the content of actual performance audits, the great bulk of which stick firmly to the three Es. In the year 1999-2000, the ANAO presented 52 reports to parliament. Of these, four (Nos 6, 10, 21, 28, 52) dealt with financial compliance, summarising the results of the financial audits of government agencies (much of which is contracted out). Of the remaining 48, 42 focused clearly on the effectiveness and efficiency of particular agencies, programs or procedures and were thus classic managerialist performance audits. A further three (Nos 7, 18, 44) dealt with process issues, particularly privacy of personal information, but through an examination of the effectiveness of policies to protect data privacy, and so could be seen to bring process issues within the managerialist framework. Another report (No. 1, on *Purchaser/Provider links between the Department of Health and Aged Care and Centrelink*) framed the inquiry more broadly in terms of 'good practice' and 'good corporate governance principles'. These principles were said to include, inter alia, issues with a process component, such as roles and responsibility, reviews and reporting (para 7). Indeed, 'good governance' may be said to embrace both sets of values.

The only two to go clearly beyond the managerialist framework were No. 30 (*Examination of the Federation Cultural and Heritage Projects Program*) and No. 42 (*Magnetic*

Resource Imaging Services), both conducted in response to political requests. The former, No. 30, was undertaken at the prompting of the Opposition (para 2) and investigated the allocation of grants under the Coalition government's federation fund which was suspected of being used with pork-barrelling intent. The objectives of the inquiry were to assess the:

- extent to which the administration of the FHCP program complied with better practice in the assessment of applications, especially in relation to the transparency and rigour of the decision-making process;
- equity of the geographic spread of grants to states and electorates; and
- process for the announcement of the results of grant applications (para 5).

Report No. 42, which was written at the request of the Minister of Health and Aged Care (para 4), examined the vexed question of how radiologists had gained knowledge of the government's impending budget decisions about magnetic resonance imaging (MRI) equipment. Its objectives, as referred to in the title, were to examine and report on the effectiveness and *probity* [emphasis added] of the processes involved in:

- the development and announcement of the proposal to improve access to Magnetic Resonance Imaging (MRI) services announced in the 1998 budget, including negotiation with the diagnostic imaging profession; and
- the registration of 'eligible providers' and 'eligible equipment' to enable the payment of claims for MRI services in the Medicare benefits schedule in relation to these services, and related administrative and monitoring arrangements (para 6).

It is perhaps not surprising that of the 48 performance reports, these two received the most attention from parliament and the media. Equally significant, however, is how exceptional they were in the annual work of the ANAO, which was largely concerned with efficiency and effectiveness issues only. Moreover, both were undertaken at the request of politicians, indicating that the Auditor-General is cautious about venturing into such contested territory on his own initiative.

The balance between managerial and process concerns in performance auditing in state audit offices is broadly similar. In NSW, for instance, for the same period, the state Audit Office produced 11 performance audits, eight of which focused on effectiveness and efficiency issues. One, on *Group Homes for People with Disabilities in NSW* (27 June 2000) added 'accountability for public expenditure' as one of the terms of reference and clearly had in mind external accountability to accountability agencies. Two others dealt directly with accountability procedures. *Key Performance Indicators* (31 August 1999) and *Complaints and Review Processes in the Office of the Protective Commissioner and the Office of Public Guardian* (28 September 1999). Of the efficiency and effectiveness audits, two gave prominence to improved public accountability in their recommendations (*Academics' Paid Outside Work* (7 February 2000) and *Enforcement of Street Parking* (24 November 1999)). The NSW Audit Office appears to give somewhat more weight to its role as a guardian of public accountability than does the Commonwealth Audit Office. The Victoria Auditor-General's office produced five major performance audits in the year 1999–2000, four of which were concerned solely with effectiveness and efficiency issues while one (*Represented Persons Under State Trustees' Administration* (24 May 2000)) had a broader brief assessing whether state trustees had acted in compliance with relevant legislation, in a cost-effective manner and with proper accountability' (1.4). On the whole, however, while different Auditors-General may impose differing emphases in their choice of performance audits, in all jurisdictions the managerial role, as certifier of efficiency and effectiveness, remains the dominant role.

At the same time, however, Auditors-General have sometimes chosen, or been required, to stand up for process values against the managerialist emphasis on results. It is these issues that have provoked the most vigorous confrontations with governments, particularly at the state level, as in Victoria, NSW and SA. Policies of privatisation and contracting out and the over-use of 'commercial-in-confidence' disclaimers have been criticised because they diminish process values such as accountability and transparency, 'Can-do' political leaders and

their staff who cut corners in the pursuit of politically attractive deals have been accused of breaching proper financial procedures. This was the basis of much of Ches Baragwanath's criticism of the Kennett government and also led to difficulties between the Carrall government and the ACT Auditor-General on the financing of Bruce stadium. It is as defenders of process values that Auditors-General achieve their highest public profile and appear most willing to confront governments. On these process issues, Auditors-General can stand their ground, confident in their authority, their backing from Parliament and mana with the public. Indeed, concern for propriety and process lies at the heart of the audit function. Logically, audit may be seen as a process of the *ex post* verification of performance. However, its original purpose, in its core work of financial compliance, has been with the enforcement of ethical values such as probity and transparency rather than with the instrumental values of effectiveness and efficiency. It is not surprising, therefore, that it is as upholders of propriety, rather than as assessors of policy outcomes, that Auditors-General carry most public authority. On the other hand, paradoxically, it is their claim to be assessors of outcomes that has so greatly extended their range of activities, with consequences not always foreseen by their managerialist advocates or by themselves. But a deeper knowledge of the background and traditions of Auditors-General would always have suggested that they would make uneasy bedfellows with the more radical exponents of the NPM.

If the bulk of performance auditing is concerned not with process values but with the managerialist values of economy, efficiency and effectiveness, this apparently more straightforward and managerialist form of assessment is not without its own pitfalls for Auditors-General. In principle, the remit of performance auditing according to the three Es offers Auditors-General almost limitless opportunities for supervising and scrutinising the whole field of government performance. In practice, however, they have been more cautious in their choice of activities to investigate and issues to pursue. In the first place, they have been forced to recognise that performance assessments may sometimes require skills beyond those of the traditional accountant or financial auditor. A

simplistic view of monitoring against specified objectives might suggest that no more is required than the capacity to operate a straightforward checklist. Once an agency has decided on its own targets and relevant performance indicators (choices that are always conceded to be beyond the purview of auditors), auditors can then come in and straightforwardly verify whether the indicators have actually been met as stated. On this view, little more is needed than the capacity to record and count. However, as is well recognised, assessments of the efficient and effective achievement of objectives often go beyond simple recording and counting and involve more complex, qualitative judgments (Keen 1999, Guthrie and Parker 1999). Indeed, the broader terms 'evaluation' and 'evaluator' have sometimes been preferred to 'audit' and 'auditor' in order to mark the need for a wider range of social science methods and disciplines. Such differences over terminology may reflect institutional competition for the right to conduct assessments. Audit offices prefer their own proprietorial term, 'audit', as a mark of institutional ownership and of the right of self-styled auditors to judge performance. Other agencies, following the GAO model, have opted for 'performance evaluation', seeking to wrest control away from the more narrowly circumscribed skills of accountants and financial auditors.

In Australia, the professional auditors have prevailed. In the early 1990s, the Commonwealth Department of Finance developed an elaborate program of performance evaluation and, indeed, had reportedly wanted to take over the ANAO's right to conduct efficiency audits (Taylor 1996:150). However, after the change of government in 1996 and the consequent appointment of Peter Boxall as secretary of the Department of Finance, this evaluation program was wound down and the field was fully yielded to the ANAO which was buttressed by new legislation (*Auditor-General Act 1997*) and under new leadership (Pat Barrett, an ex-Deputy Secretary of Finance, appointed in 1996). In consequence, 'performance audit' is now well institutionalised as the appropriate term for assessing performance.

Though performance assessment is safely in the hands of government auditors, it may still require skills beyond those of accountants and professional auditors. As the Commonwealth

Auditor-General has recognised, effective performance auditing may call for wider knowledge and experience than are available to the normal professional auditor, particularly practical experience in the particular field being audited (Barrett 1996:142–43). For this reason, audit offices attempt to include a range of diverse skills within their own staff and also commonly invite experts with specialist expertise to contribute to particular audits. Nonetheless, given the inevitable bias of their offices towards traditional accounting and financial management, most Auditors-General direct their performance audits to areas where these skills are most likely to yield robust and credible results, that is, areas such as financial controls, fraud prevention, risk management and efficient resource usage. Auditors are generally more at home in the assessment of relatively cut and dried matters of efficiency and economy than in the more qualitative judgments of effectiveness (Power 1997:50–52).

Where performance audit does engage with effectiveness assessment, it is often at a safer, second-order level, that is, by commenting on procedures that agencies have established for monitoring their own effectiveness. Indeed, as already noted, some more cautious Australian jurisdictions (Queensland and NT), legally restrict their Auditors-General to this second-order type of performance auditing. Similarly, the auditing of performance indicators themselves is a less contentious issue than direct auditing of performance and has been taken up by a number of audit offices, notably WA (for example, *Getting Better All the Time: Health Service Performance Indicators 1999*). The involvement of the ANAO with agencies' internal audit procedures can be seen in this light as a means of advising on procedures for effective performance rather than on performance itself. So, too, can the ANAO's series of better practice guides aimed at strengthening 'good governance' procedures on matters such as strategic planning, risk management, performance monitoring and accountability mechanisms. Even here, the ANAO must tread warily in relation to other central agencies, such as the Department of Finance and Administration and the Public Service and Merit Protection Commission, which also have a system-wide mandate for good governance (Barrett 1999:13).

Another area in which Auditors-General risk exceeding their legitimate mandate in the conduct of performance audits is open confrontation with ministers and with government policy. Performance auditing of efficiency and effectiveness is conducted within a framework that takes objectives as given, as properly determined by elected ministers through the democratic political process. Performance auditing comes in at the next stage, to investigate whether government objectives have been met with due effectiveness, efficiency and economy. In theory, a clear distinction can be made between objectives and policies set by ministers and implementation carried out by public servants, leaving auditors to concentrate on the latter without treading on ministerial toes or breaching Westminster conventions of ministerial responsibility. To reinforce this point, some jurisdictions have followed the UK in legally prohibiting Auditors-General from criticising government objectives. For instance the NSW Act (*Public Finance and Audit Act 1983*, s.38D) prevents the Auditor-General from 'question[ing] the merits of policy objectives of the Government' as indicated by cabinet decisions, ministerial directions, policy statements in budget papers or other documents. There is no such formal prohibition in Commonwealth legislation, though the present Auditor-General accepts that performance audit functions do not extend to 'auditing the performance of ministers nor to examining or reporting on the appropriateness of government policy' (Barrett 1999:11).

In practice, however, matters may be less clear-cut. For instance, the objectives behind a policy may be ambiguous or shifting, so that an auditor may criticise a policy as ineffective in terms of meeting its stated objective whereas the policy may have actually been intended to meet another objective, perhaps unstated (Harris 2000:6-7). In this case adverse criticism of the implementation of a policy may be taken as objection to the policy itself. For instance, if an Auditor-General points out that an infrastructure contract may not have yielded its promised savings (*Private Participation in the Provision of Public Infrastructure, NSW Performance Audit 1994*), this could be taken as criticism of an infrastructure policy that was supported by government for its contribution to the private sector, regardless of savings. Similarly,

government policy may extend beyond the choice of particular policy objectives to cover the choice of certain preferred means towards these objectives. Thus, the NSW government objected to doubts raised by the Auditor-General about the financial effectiveness of its policy towards the tolling of roads in metropolitan Sydney (Harris 2000:7). The government had committed itself not only to a general policy of raising revenue by tolls but also to raising revenue by means of particular tolls for particular freeways, decisions that it considered beyond the scope of Auditor-General comment.

In general, auditors can, and usually do, avoid such clashes. The distinction between policy objectives and policy implementation assumed in performance audit raises the same conceptual problems as the distinction between 'policy' and 'administration' which is used to mark out the respective roles of ministers and public servants. The distinction is often applied in the same way, that is, pragmatically, by understanding 'policy' to mean whatever governments or ministers choose to insist on, whether it is a general policy direction, a choice of a particular mechanism, or a matter of minor administrative detail. Public servants allow ministers the right to decide what is to count as 'policy' and therefore as off-limits for public service comment in forums such as parliamentary committees. Most Auditors-General tend to keep to the same conventions. They usually avoid potentially controversial questions of effectiveness and efficiency that might lead them into collision with ministers and might thus be seen to trespass on the elected government's right to make its own decisions. The normal performance audit is therefore designed not to embarrass ministers. Its conclusions may reflect badly on public servants, and on so-called 'administrative policy' (Uhr 1999:186), but not on ministers themselves.

For instance, those recent Commonwealth audits that have found serious faults in government departments, such as the recent audit of foreign exchange management (*Commonwealth Foreign Exchange Risk Management Practices 2000*) or the frequent reviews of defence expenditure (eg *Management of Major Equipment Acquisition Projects 1999*), relate to management matters safely in the hands of public servants. They raise matters that

ministers can react positively to, promising prompt remedial action, rather than issues that will threaten serious political risk to the minister's reputation. Admittedly, the discovery of faults in bureaucratic administration can be used, particularly by Opposition politicians, as a basis for criticising the government policy behind the administration. For example, opponents of government outsourcing policies have used audit criticisms of tendering procedures as criticisms of the policies themselves. The Commonwealth Auditor-General's criticism of Information Technology Outsourcing (*Implementation of Whole-of-Government Information Technology and Infrastructure Consolidation and Outsourcing Initiative 2000*) provided ammunition for opposition to the policy's ministerial sponsor, John Fahey. However, Auditors-General have usually been at pains to point out that any objection is to the detail of implementation not to the policy itself. Their cherished independence depends on maintaining a position of political impartiality that can be compromised by their entering into the partisan fray or by becoming too closely aligned with the parliamentary Opposition.

Overall, then, Auditors-General interpret the expansive remit of the performance audit with prudent circumspection. They avoid commenting on matters that take them too far beyond their professional expertise in legal compliance and financial management and confine themselves to matters they can prove. They attempt to steer clear of issues that might lead to criticism of government policy and thus embroil them directly in partisan politics. Given the wide scope of government activity and the great potential for uncovering bureaucratic inefficiency in areas safely beyond the range of direct ministerial culpability, the self-restraint is not overly confining, especially in view of the limited resources available to Auditors-General for the conduct of performance audits. Nonetheless, it does call for politically sensitive judgment about what matters should be the subject of performance audits and a readiness not to take at face value the instrumental rationalism implicit in the logic of performance audits.

As noted earlier, it is on matters of process and propriety rather than efficiency and effectiveness that Auditors-General are most

prepared to confront elected governments. In defending process matters, Auditors-Generals are on constitutionally stronger ground and are under less obligation to defer to the elected arm of government. Objections to government decisions as inefficient or ineffective run contrary to well-established Westminster conventions that politicians should take responsibility for executive actions and should be overruled only by parliament itself, not by non-elected officers. On matters of process, however, no political convention requires that ministers can decide what is to count as proper or that public servants should defer to their ministers' view of constitutional propriety. Nor, though executive privilege runs strong, is it accepted that governments should always decide the limits of their own accountability. On such matters, review agencies, including Auditors-General, can boldly stand up for due process, regardless of how much they may offend governments. Any political challenge to their authority, such as that offered by the Kennett government or by Prime Minister Keating over the Sports Rorts affair, will be seen as self-serving and will be counterproductive. By the same token, it is on such issues that Auditors-General, however keen they may be to avoid offending governments, are expected to speak out and take on the role of institutional champions of traditional public service values. A prime minister seeking an independent and credible opinion will turn naturally to the Auditor-General on an issue of due process or financial propriety but less so on whether a policy has met its objectives or wasted resources. On matters of efficiency and effectiveness, Auditors-General may justifiably, and properly, yield to political authority and other experts. On matters of propriety, they have nowhere to hide.

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Program Budgeting and Accountability in Local Government

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Much has been written about program budgeting and its relevance to improved efficiency and effectiveness. However, there is little discussion about the relationship between the use of program budgeting and accountability. While, organisations using program budgeting focus on the issues of performance, the accountability of management to an elected body, such as a local council has been given little attention. In this article three questions are posed: (1) Is the performance information available to enable councillors to form a judgment about management's performance?; (2) Is management involved in determining issues of policy, such as objectives, programs and performance measurement?; and (3) Are councillors confronted by a greater volume of budgetary documentation but with no increase in time to consider it? The results show that program budgeting does not always enhance accountability in local government.

RESEARCH & EVALUATION

In the last two decades the public sectors of many Western countries have embraced New Public Management (NPM) (Hood 1995). According to Hood NPM consists of seven elements:

1. a shift towards greater disaggregation into corporatised units;
2. a shift towards greater competition between public sector organisations and public sector and private sector;
3. greater use within the public sector of private corporate management practices;
4. greater stress on discipline and parsimony in resource use;
5. more hands-on management;
6. more explicit and measurable standards of performance; and
7. attempts to control public organisations in a more 'homeostatic' style according to preset output measures.

Hood goes on to state that the basis of NPM is the lessening or removal of differences between the private and the public sector and a greater emphasis on accountability for results. Given the stress on management, performance and outcomes, budgeting for outputs, rather than inputs, is considered to be an integral part of

NPM. The changes in budgeting in the public sector have called for a broadening of the concept of accountability from that of stewardship to including also accountability for performance.

In this article consideration is given to the consequences for accountability when a public sector organisation uses a form of budgeting consistent with NPM. It will be argued that the introduction of a new budgeting system can change the emphasis of accountability and the relationship between principal and agent. The relationship between budgeting and accountability has received little attention, in particular the mechanics of accountability that is, the flow of information between agent and principal has not been studied.

With the rise of managerialism in the public sector there has been a growing concern with performance and outputs (Zifcak 1997) leading to the introduction of corporate planning, program budgeting and performance measurement (Guthrie 1993). These techniques have changed the emphasis of accountability to include performance as well as probity. For this 'new' accountability to be sustained, accurate and appropriate performance information must