PUBLIC SECTOR ACCOUNTING, ACCOUNTABILITY AND GOVERNANCE

GLOBALISING THE EXPERIENCES
AUSTRALIA AND NEW ZEALAND

Edited by
Robyn Pilcher and David Gilchrist
Public Sector Accounting, Accountability and Governance
Globalising the Experiences of Australia and New Zealand

Edited by Robyn Pilcher and David Gilchrist
Robyn

For Verna and Edward. Although both gone, you will always be with me in my heart. Without your support and encouragement throughout my life none of this would have been possible.

David

For Ben, Georgia and Maddie.
Contents

List of tables ix
List of figure x
Contributors xi
Acknowledgements xv

1 Introduction 1
    ROBYN PILCHER

2 Differential reporting: what does it really mean for the public sector? 17
    ROBYN PILCHER AND DAVID GILCHRIST

3 Depreciation in local government—still the problems continue 30
    ROBYN PILCHER

4 The consequences of the current public sector reporting framework for government accountability and decision making 43
    JANET MACK

5 Westminster system, parliamentary sovereignty and responsible government: executive accountability in New Zealand and Australia 55
    DAVID GILCHRIST

6 The relationship between pre-election reports in New Zealand local governments and voter turnout 67
    BIKRAM CRATTERJEE, ROSS TAPLIN, NICHOLAS PAWSEY, MARY LOW, AND GRANTLEY TAYLOR
Contents

7 Watching the watchdogs: how auditing is contributing to governance
PETER WILKINS

8 Same, same but different: a comparison between performance audit and operational audit
ELNAZ VAFAEI, DAVID GILCHRIST, GLENNDA SCULLY, AND HAJINDER SINGH

9 Just do it? A cautionary tale on implementing performance management regimes
JOSEPH DREW AND SASINDU GAMAGE

10 The intention and the reality: A commentary on the not-for-profit reform Agenda in Australia
DAVID GILCHRIST AND ROBYN PILCHER

11 Utopia: joined-up government in Australia and New Zealand
DAVID GILCHRIST AND KAREN KNIGHT

12 Conclusion and globalising accounting, accountability and governance
ROBYN PILCHER

Index

Tables

6.1 Variable measurement
6.2 Summary statistics for voter turnout
6.3 Summary statistics for independent variables
6.4 Regressions predicting voter turnout
6.5 Disclosure items and number and percentage of the 55 local companies disclosing each item
8.1 The comparison of OA and PA
9.1 Inconsistent depreciation, Greater Sydney councils 2013 (percent)—testing the first assumption
9.2 Unexpected depreciation, Greater Sydney councils 2014–2015 (percent)
9.3 Inconsistent depreciation, Greater Sydney councils 2015 (percent)—testing the composite effect of violating both assumptions
7 Watching the watchdogs
How auditing is contributing to governance

Peter Wilkins

Introduction
External audit of the public sector is a basic and long-standing feature of Australian public administration. The fourth Act passed by the newly formed Commonwealth Parliament in 1901 created a public sector auditor (Australian National Audit Office 2017) and states had independent audit functions prior to (and after) the creation of the Federation (Bunn & Gilchrist 2013). The original role of these public sector audit institutions was financial auditing to provide assurance regarding transactions and the usefulness of the statements.

Contemporary public sector audit has diverse additional roles, including performance audits, assurance regarding statements of performance, audits of key performance indicators (KPIs), internal control assessments and information systems audits.

Like the rest of the public sector, it is important that the audit offices are accountable and that there is oversight of their performance. This chapter analyses four recent Australian statutory reviews of audit offices and presents insights into the reviews and the audit offices involved. The observations and conclusions are of interest to Parliaments and audit offices in Australia and elsewhere because this kind of review is not general practice outside Australia.

Literature review
There has been much written about performance audit (as detailed in the following chapter). However, given the focus of performance audit, it is surprising how little of this writing provides evidence-based analysis of what performance audit is achieving. A wide-ranging review of evidence for the impact of performance audit identified 14 relevant empirical studies assessing a range of factors that facilitate impact, including the report, the process used, diffusion and communication and the audit results (Loocke & Put 2011, p. 185). However, the authors concluded that there is still considerable uncertainty about the factors that contribute to the impact of performance audits (Loocke & Put 2011, p. 201).

Typically audit offices have a hierarchy of quality assurance systems that may include in-house ‘cold’ and ‘hot’ reviews, monitoring information such as surveys of parliamentarians and agencies, peer reviews and benchmarking with other audit offices (see, for instance, Victorian Auditor-General’s Office (VAGO) 2016). Sitting above these arrangements is the accountability framework imposed by the legislation and the role adopted by the Parliament. Parliamentary oversight committees often have a specific role in relation to the work of integrity agencies (Griffith 2006) and periodic statutory reviews can be an important component of this accountability framework. These reviews typically look at the performance of the audit office with the approach shaped by the specific provisions of the legislation and the terms of reference. Reviewers may also be required to consider the adequacy of the governing legislation in relation to issues such as protecting independence.

Statutory reviews were identified by Whitfield (2006, p. 89) as necessary and ‘fundamental for Parliament to gain assurance that the Auditor-General is carrying out his role in an appropriate way’.

It is notable that the wide-ranging review on evidence for the impact of performance audit referred to earlier identified 14 empirical studies but did not include statutory reviews as a source (Loocke & Put 2011, p. 188). There has not been a previous analysis of a sample of statutory reviews to understand what is being learnt and what issues parliaments and reviewers might consider in future. Consequently, there is potential for drawing on statutory reviews as a further source of evidence about the impact of performance audit. This chapter is a first attempt to fill this gap. A complementary project is based on the legislative provisions and terms of reference. It assesses the role of reviews of watchdogs from a parliamentary perspective and has been reported separately (Wilkins 2017).

Research design
Four Australian jurisdictions had statutory review reports finalised in the 18-month period prior to the commencement of the project in April 2017. These were three States and one Territory, each having its own parliament: the Australian Capital Territory (ACT), Queensland, Victoria and Western Australia (WA).

Framework for analysis of the reviews
The legislation and terms of reference set the scope and, to some extent, the approach adopted by each review. It would therefore be expected that reviews would differ between jurisdictions and between reviews within a jurisdiction.

A framework was developed to unpack key aspects of the reviews relevant to the focus of this chapter, based on five components:

- overall findings of the reviews
- improving public sector performance
- improving public sector accountability
- independence of the audit office
- transparency of the audit office
The assessment of the reviews reported in this chapter focuses on performance audit functions as they most directly contribute to audit impact in terms of improving public sector performance and accountability and are commonly the predominant focus of parliamentary interest in the work of public sector audit. Additionally, in considering audit impact, emphasis is given to coverage of effectiveness over efficiency and economy, and also over issues of compliance.

Results

Overall findings

The overall findings of the four reviews were generally positive, having a tone of doing well in each case with some areas for improvement. For instance, the Queensland review found that audit office ‘is fundamentally sound... It is operating economically and efficiently, and in accordance with its legislation’ (Smith & Carpenter 2017, p. 2). The reviews made a wide variety of recommendations, ranging in number from 15 to 30 per review. While there were some common areas for improvement, they also identified different key issues in each jurisdiction.

Improving public sector performance

All four reviews provided information on how the audit offices contributed to public sector performance. For instance, the review of the Queensland Audit Office (QAO) explained its approach to assessing effectiveness by noting that it ‘requires addressing the question of purpose and the outcomes that the QAO achieves’ (Smith & Carpenter 2017, p. 6). The review used the QAO’s articulation of its own objectives in its strategic plan and in its assessment of effectiveness, noting that one of the objectives is ‘[o]ur clients use the information we provide to improve accountability and performance’ (Smith & Carpenter 2017, p. 8).

However, the reviews paid relatively little attention to coverage of factors that may contribute to ongoing high performance, such as aspects of public sector agency organisational culture like the capacity to deliver quality services with integrity and to innovate as the need arises. While not easy aspects for auditors to address on a firm evidence base, such factors can be important information providing insights relevant to the future performance trajectory.

Coverage of other key issues regarding public sector performance was addressed through a consideration of the topic selection processes used by each audit office, and through a consideration of the measures used to report performance. These two perspectives are assessed next.

Choosing relevant and high priority performance audit topics is a key ingredient of the information ultimately provided as a result of an audit programme.

The WA review found that the audit office’s topic selection process was robust and incorporated better practices than those used in other jurisdictions. It noted that the process considered the essential elements of materiality, impact, previous audit and review coverage (including by other bodies), risk, auditability and context, and sought a balance across core audit themes. The Victorian review noted similarly that the audit office followed a comprehensive selection process for its performance audits and had the right balance of performance audits. However, it also found that the audit office was unable to provide any analysis to support its decisions regarding the total number and mix of the performance audits and recommended that this analysis be conducted. The ACT review also raised a significant concern, noting that ‘a number of stakeholders expressed a desire for more reports to address outcomes and that they should focus on achieving improved operational efficiency and effectiveness’ (Pearson 2016, p. 25). It also suggested that more analytical approaches and additional audit criteria should be adopted in selecting performance audit topics. Overall, it is not evident that the reviews sought to identify any ‘blind spots’ in topic selection such as performance audit coverage of central agencies.

It is therefore evident that there are limitations in how some audit offices undertake and explain their topic selection processes so that care needs to be taken in seeking to understand how they contribute to public sector performance. There is also very little review coverage of how the performance audit programme influences agencies other than those that are within the scope of the individual audits. However, other research has argued that there are lessons to be shared more widely because of systemic issues that exist across a wider range of agencies than those within scope (Loocke & Put 2011, p. 182).

This concern is given some consideration in relation to the issuing of better practice advice. The Victorian review addressed promoting improvements in public sector administration by taking a stronger role in identifying and promoting better practice. Suggestions included publishing better practice guidance and sharing checklists, assessment criteria and frameworks that have the potential of extending lessons learnt to a wider range of agencies (VAGO 2016).

It is evident from the four reviews that the Queensland audit office has in recent years gone further than the other three audit offices in seeking to measure how it is contributing to public sector performance, suggesting that there is scope for learning between audit offices using the observations of the individual reviews.

Improving public sector accountability

There is general coverage by the reviews of the role of audit offices in strengthening public sector accountability. It was addressed most directly by the review of the WA Office of the Auditor-General (OAG), which stated that ‘[t]here is evidence that OAG findings and recommendations have directly assisted Parliamentary scrutiny, influenced government decisions and improved public sector accountability and management practices’ (Vista Advisory 2015, p. 71). Value for money in improving public accountability was considered, including a comparison with similar organisations, the OAG’s KPI audits and communications with audited entities. The review also referred to the role of auditing agency KPIs which ‘has provided visibility to Parliament, the public and successive auditors of the impact of audit work’.
agencies' performance in key areas as stakeholders can have greater confidence in reported performance information (Vista Advisory 2015, p. 71).

By contrast, the Queensland review considered the value of audit and indicated that the primary value of performance audits lies in the benefit to parliament and the public of public entities being held to account as the audits give assurance about the performance of public entities. However, while the review made findings and recommendations specific to improving public sector performance, it did not do so in relation to public sector accountability. Similarly, the Victorian review identified that the audit office's vision included being a catalyst for continuous improvement in the accountability (as well as performance) of the public service, but did not assess how this is being addressed by the audit office.

Independence

Independence of the auditor-general is an essential feature of the role and an underpinning of its effectiveness (Whitfield 2006, p. 88). Overall, it is evident that the reviewers gave considerable attention to issues of independence.

The Queensland report (Smith & Carpenter 2017, p. 7) addressed independence when discussing the concept of clients (auditees) and the extent to which an auditor can assist a client, noting that:

[an] auditor must be independent of the entity that it audits, so the auditor is not subject to the client's direction. The extent to which an auditor can assist and advise the client is limited, lest it results in the auditor auditing his or her own work.

This review also commented that there was a lack of independence in relation to the resourcing of the office and recommended that the auditor-general be recognised as an independent officer of Parliament and that Parliament's role be increased in matters such as appointment, setting the budget and monitoring performance. However, the report did not address specifically the implications for independence resulting from the executive government's control in appointing the reviewers and setting the terms of reference.

The ACT review observed that amendments to the Act in 2013 had established an unprecedented level of independence from executive government. Nevertheless, it identified the importance of determining a term of appointment for the auditor-general (Pearson 2016).

Transparency

Two of the reviews—the Queensland review and the WA review—addressed the transparency of the audit offices in relation to their own performance.

The Queensland review addressed performance monitoring and reporting by the audit office, finding that a balanced scorecard system was used to plan and monitor performance for internal reporting purposes, and that [s]elect measures are reported externally in the QAO's Statement of Service Delivery and Performance Statement (Smith & Carpenter 2017, p. 111). It commended the audit office for its reporting of performance audit recommendations implemented and benefits from performance audits. It also noted that the audit office adopted, in 2016, an integrated reporting approach and had commissioned an audit of its performance statement which it commended. Smith and Carpenter (2017, p. 111) observed that

publication of performance information, both financial and non-financial, is an important part of a public entity's accountability. Audit gives the users of that information assurance that it can be relied on.

The WA review found that the audit office was leading other jurisdictions in its publication of a transparency report. It identified that transparency could be improved by reporting on the utilisation of contract audit firms and the auditor-general’s methodology for providing opinions on ministerial notifications. It suggested that the Parliamentary Joint Committee could consider a requirement that the auditor-general develop and publish a forward audit work programme showing the audits in progress at the start of the financial year and planned and potential audits for future years (Vista Advisory 2015).

While the terms of reference for the Victorian review identified the transparency issues of the appropriateness of the performance indicators and the usefulness of measures to assess the impact of audit activities, they were not the subject of specific comment in the review report.

Although it is evident that some consideration has been given to the transparency of the audit offices, it seems a more detailed consideration of their annual reports, website material and KPIs could enrich the value of the reviews.

Discussion

The observation that the overall findings of the four reviews were broadly positive is in one sense reassuring, as it aligns with the generally high standing of the offices in the community and that the reviews accurately capture the balance between good performance and areas for improvement. On the other hand, it raises a note of caution as to whether the reviews are sufficiently probing in their analysis. For instance, could there be an element of 'capture' of the reviewers, who might be so close to auditing practices that they do not take a bigger picture view? There are critics who query the validity of the claims of the contribution of performance audit (see, for instance, Leeuw 2011), and a review of performance audit literature identifies seven critiques: 'anti-innovation', 'nit-picking', 'expectations gap', 'lapdog', 'headline hunting', 'unnecessary systems' and 'hollow ritual' (Kells 2011). Others highlight the potential for performance audit reports to remain silent on key issues (Morin 2016) and the role of the accounting profession in shaping audit practices in particular in relation to performance audit (see, for instance, Saint-Martin 2004). These critiques are partially addressed by the reviews, but it is not evident that the risks involved are considered by the reviewers in a manner...
An intermediate view could be that the wording of the review reports matches a common feature of performance audit reports—using neutral language that tends to underplay the significance of the findings, leaving it to parliamentarians and the media to interpret and articulate the severity of the problems identified.

As these differing perspectives are not addressed directly in the reviews, the discussion in this section considers the key issues raised in relation to improving public sector performance and accountability, and the independence and transparency of audit offices.

**Improving public sector performance and accountability**

The concerns expressed about the topic selection process for performance audit indicate that notwithstanding quite detailed processes to inform decisions, there is an inherently subjective element to these decisions. This, in turn, leaves the work open to challenge. By way of example, the Deputy Chair of the Queensland Finance and Administration Committee, Mr R. A. Stevens MP, queried, during hearings following completion of the review report, the value of some performance audits as their scope was too broad and they appeared to highlight problems that were already well known (Queensland Finance and Administration Committee 2017a, p. 3). Furthermore, the tensions between improving public sector performance and accountability, characterised as conflicting roles of 'consultant' and 'watchdog' (Sharma 2007, p. 292), were touched on in the reviews but were not explored in depth.

In relation to the wider impact of performance audits, little is understood about how the performance audit programme influences agencies other than those that are within the scope of the individual audits. Internationally, some audit offices do seek to incorporate a consideration of the potential factors underlying observed public sector performance issues. For instance, the Belgian Court of Audit undertakes a risk analysis when selecting topics that seeks to characterise the reasons for poor performance, these being identified as poorly designed policy, poor implementation or the effect of external circumstances, also termed 'bad luck' (Put & Turksema 2011, p. 61). Using an analysis framework of this kind and including factors such as agency organisational culture could assist in identifying the causes underlying the level of performance and accountability.

Some audit offices actively promoted better practice by issuing general guidance material and the reviews encouraged this approach. However, it also raised concerns for some authors about the effect on independence. Saint-Martin (2004, p. 137) observed that once an audit office gave a focus to the usefulness of its work to agencies audited, 'it can conflict with its original mission of fearlessly reporting waste, inefficiency and ineffectiveness'.

There is also a need to better understand how audit offices affect public sector legitimacy and trust, these being aspects of public value that are 'difficult to quantify but of immense importance' (Talbot & Wiggan 2010, p. 64).

The contribution of audit offices to improving accountability is identified in general terms in the reviews, and the WA review identified more directly that audit findings and recommendations had directly assisted parliamentary scrutiny, influenced executive government decisions and improved public sector accountability.

It is evident that the issues of wider impacts and improving accountability would benefit from more detailed consideration in future reviews or through other research.

**Independence and transparency of the audit office**

The reviews demonstrated a clear recognition of the importance of audit independence, raising issues specific to the jurisdiction. These included issues related to the governing legislation as well as practices such as the resourcing of the audit office.

For instance, the WA review recommended that the Parliamentary Joint Committee consider strengthening the auditor-general's information gathering powers and independence by giving Parliament, or one of its committees, an approval or veto right before the appointment of a nominee for the role of auditor-general.

The Queensland review identified barriers to effectiveness that included under-resourcing of both financial and performance auditing and the legislation preventing the audit office from employing all the staff that it needs because it could not offer adequate remuneration. The parliamentary committee considered the reviewers' report and recommended that the audit office prepare a detailed analysis of any additional funding required, but it did not support removing the requirement that the Treasurer approve audit fees (Queensland Finance and Administration Committee 2017b).

One review considered the implications of strengthening independence in relation to administrative support for the ACT Speaker as a result of legislative amendments that involved the Speaker in issues such as the budget and administrative arrangements for the auditor-general (Pearson 2016). However, none of the reviews commented directly on the important consideration identified by Whitfield (2006, p. 88), that parliamentary oversight should not encroach on the independence of the auditor-general.

In relation to transparency, only the Victorian and WA reviews explored some aspects of the significance of measures of coverage. It was presented by some audit offices as a component of the decision-making process and subject to targets ahead of the decision about whether to audit specific topics. For instance, a criterion established by the Victorian review was that 'VAGO has logical criteria for selection including materiality, risk, extent of coverage, value-add, public interest and data available from other jurisdiction' (Deloitte 2016, p. 38) and the WA review posed the specific question "[d]oes the OAG's audit coverage provide a reasonable level of scrutiny into the efficient and effective expenditure of public money?" (Vista Advisory 2015, p. 61). However, none discussed the tension between choosing the best individual topics one-by-one, compared with prioritising broad coverage over the choice of the best individual topics. In the former case, coverage is an interesting measure that describes what audit offices do, while in the latter, it is an interesting measure that indicates how the audit office might meet its performance objectives.
number of separate decisions but it would not be a measure of effectiveness with related targets (as is the case with the WA OAG).

All the audit offices reviewed covered some of the common audit office performance measures identified by Looeke and Put (2011, p. 196). The reviews identified by implication that the information disclosed can be interpreted in different ways. For instance, whether:

- a high proportion of recommendations accepted indicates that the audit office did a good job in explaining the need for the changes involved, or if it means that the recommendations avoided changes that were not likely to be accepted;
- a high proportion of recommendations implemented indicates that the audit office did a good job developing implementable recommendations, or if it avoided changes that were not likely to be implemented;
- partial capturing of costs and benefits can meaningfully establish the merits of a performance audit programme.

More generally, there is a potential that agencies accept and implement recommendations by the auditor-general because of the associated public pressure rather than strictly on their merits, further clouding the significance of measures based on rates of acceptance and implementation.

The progress in reporting on how audit offices contribute to public sector performance is limited by the absence of any absolute measures of, or changes in, that performance. Even if such measures could be created, it would be difficult to understand the extent to which any changes can be attributed to the general or specific components of the work of the audit office. Many factors can influence the impact of performance audits, including direct dialogue with agencies as well as how they perceive the performance audit (Reichborn-Kjennerud 2013; 2014). In the absence of a general theory, it was not evident that reviews were adequately taking into account the factors relevant in the local context. Further, it was unclear if factors underlying performance problems were being identified and addressed or if it is the case that they were, in essence, only addressing symptoms.

The advances by the Queensland audit office in better reporting of the contribution of performance audit raises questions about the lack of similar initiatives being identified by the reviews for the other three jurisdictions. Even with more comprehensive reporting, the considerable uncertainty about the factors that contribute to the impact of performance audits (identified by Looeke & Put 2011, p. 201) indicates that this needs to be a continuing focus for audit offices and parliaments.

More generally, it is not possible to conclude whether the broadly positive overall findings of the four reviews provide full assurance about the audit offices, or whether the review limitations leave key issues inadequately addressed. In particular there is potential for future reviews to focus on the extent to which audit offices are addressing the factors underlying performance problems, how they assess and report their performance and how they contribute to learning and improvement across the wider public sector.

Conclusion

The analysis of the four statutory reviews indicates that there were both similar and different issues identified across the audit offices, intimating that the reviews can contribute to improving their performance both through direct feedback and learning from the reviews of other audit offices. While the reviews were, in the main, positive about audit office performance, they also found areas for improvement that included limitations in the prioritisation of their performance audit work and possible changes to legislation and practices to strengthen their independence.

It also indicates that parliaments can consider the potential for future reviews to focus on the extent to which audit offices are addressing the factors underlying performance problems, how they assess and report their performance and how they contribute to learning and improvement across the wider public sector. However, in considering what to include and exclude from an individual review, care is needed to ensure that the scope of a review is manageable and provides for depth as well as breadth of coverage (Wilkins 2017), and whether there are other means to better gather the information and analysis being sought.

Parliaments can also learn from statutory reviews of audit offices in other jurisdictions. For instance, the WA report raised the concept of a Whole-of-Government Audit Committee to follow-up implementation of unassigned and cross-agency recommendations, and other parliaments could consider this innovative proposal without waiting for the possibility it is raised in their next review. It potentially provides a cost-effective approach to ensuring that value is achieved from the work of the audit offices, both for the agencies audited and across the public sector more generally. Periodic statutory reviews of audit offices are not general practice outside the Australian context, and as a consequence the observations in this chapter are of interest internationally.

While the four reviews make many useful observations both about the public sectors involved and the audit offices, there are a number of areas where further research could strengthen understanding. These include the contribution of the reviews to the accountability and performance of the audit offices, and ultimately to the accountability and performance of the public sectors involved. In particular, research could usefully compare the work of statutory reviews against other findings on relevant features of the public sector to provide a stronger foundation for future statutory reviews. This could help guide consideration of whether periodic reviews are the most effective and efficient way to hold watchdogs to account and help improve their performance.

Notes

1 Curtin University, Perth WA, Australia (p.wilkins@curtin.edu.au)
2 The term ‘auditor-general’ is hyphenated and generally lower case in this book, although individual jurisdictions may use variants of this.
3 The WA report is dated 27 November 2015: it was released 27 November 2015.
References


