ACCOUNTABILITY AND EFFICIENCY IN THE PUBLIC SECTOR: THE ROLE OF THE AUDITOR-GENERAL

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ABSTRACT

As the influence and pervasiveness of the State has increased, there has been a growing concern that governments and their advisors should be held accountable, not only for the regularity of their actions, but also for the wisdom of their decisions and their management of scarce resources. What is required are procedures for demanding accountability for the legality of expenditure as well as for departmental efficiency and for programme effectiveness.

The role of the Auditor-General is examined in the light of these requirements. It is argued that his effectiveness will depend on how broadly his mandate is defined, both in terms of the number of agencies audited and the degree of sophistication of the techniques employed; his independence from the administration; and his ability to publicise his findings and communicate his criticisms to Parliament.

It is suggested that the ability of the Auditor-General to develop a wide-ranging efficiency and effectiveness audit has been constrained by restrictive norms about the role of the legislature in the analysis of executive programmes; staffing and analytical impediments; and because such an audit would fundamentally alter the distribution of power between competing political actors. This leads to the conclusion that a fully efficient and accountable public sector may only be possible if governments can be convinced that this would be in their own interests.

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Geoffrey Skene,

Christchurch.

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CONTENTS

ABBREVIATIONS

A.J.H.R.	- Appendix to the Journals of the House of Representatives
C and AG	- Controller and Auditor-General
COPE	- Committee of Officials on Public Expenditure
E and A	- Exchequer and Audit Department (Great Britain)
GAO	- General Accounting Office (America)
PAE	- Programme Analysis and Evaluation
PPB	- Planning, Programming and Budgeting
RCAGA	- Royal Commission on Australian Government Administration
SSC	- State Services Commission

TABLE

CHAPTER I

ACCOUNTABILITY AND EFFICIENCY: AN OVERVIEW

> Every person ... who spends a dollar of public money should be accountable not only for that dollar but also for the results achieved from spending it.
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> - Public Expenditure Committee, *Report*, 1979.

In democratic theory there is a distrust of the executive which has found expression in the notion that governments should be responsible for their actions. To guard against the arbitrary use of executive power there are rules and conventions, mechanisms and processes to call governments to account. Accountability is the process whereby responsibility is sheeted home.

Parliamentary mechanisms for controlling the actions of the executive have had a very long history which has been well documented. Essentially they are of a legal nature, designed to ensure that administrative actions do not contravene governing Acts and laws. At its simplest the accountability of the executive has meant that it should render an account showing that moneys have been spent as Parliament directed; it is "a comparison of the accounts submitted at the end of the cycle with the budget laws made at the beginning."[1] However, as Normanton argues, the formal financial account may obscure more than it reveals. The law, he says,

> provides that it may not conceal criminal sins, but any other kind of sin can and normally will be lost without trace among

[1] E.L. Normanton, *The Accountability and Audit of Governments* (Manchester: Manchester University Press, 1966), p. 6.

> the headings and totals. [1]

So accountability in this legal sense may not be accountability at all for it attaches responsibility to no one.

In recent years accountability has come to mean much more than this. The Fulton Committee defined it as "holding individuals and units responsibly for performance"[2] which is a net cast much more widely. By this definition public spenders need to be accountable "not only for their use of public funds but also for the appropriateness of their functions."[3] As Parker has suggested:

> we not only need to know what government agencies have actually been doing and their success or failure, integrity or otherwise, but also to be able to judge whether their decisions were the wisest and best from the point of view of such considerations as technical efficiency, economic use of the public resources, and fairness to the interests concerned. [4]

Accountability in this sense demands much more of government than the mere adherence to legality for it recognises that in economically difficult times, executive agents must not only be responsible for their mismanagement, they must also be responsible for bad management and inefficiency. It demands also that resources are effectively applied to achieve the objectives of government policy. It is the apportioning of blame for unwise policy decisions, inefficient administration and under-achieving programmes as well as the traditional sins of misappropriation and overexpenditure.

But for various reasons Parliament's formal and legalistic procedures for securing accountability have been shown to be inappropro-

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[1] Normanton, p. 1.

[2] *Committee on the Civil Service*, Report, June 1968, Cmnd. 3638, Vol. 1, para. 150.

[3] *Appendix to the Journals of the House of Representatives (A.J.H.R.)* 1979, B 1 (Pt 111), p. 5.

[4] R.S. Parker, "The Meaning of Responsible Government," *Politics*, 11, 2 (1976), p. 180.

priate and perhaps even unworkable. Such reasons include, amongst others, the increasing size and pervasiveness of modern government, the use made by government of ad hoc boards and corporations which are beyond the reach of Parliament and its committees, the increased involvement of the bureaucracy in the creation of public policy, the decline in the viability of ministerial control over departments and the continued government penchant for secrecy. How far these factors have undermined the control relationship between the legislative and executive branches of government is examined in this chapter.

1. THE CHANGING FACE OF GOVERNMENT

Undoubtedly the most important of these phenomena has been the growth in government expenditures and governmental activity. Government has not only become bigger in the last thirty years, its character has changed as well. As governments have taken on new functions which they have deemed unsuited to normal departmental control a large number of semi-autonomous bodies have been created. Since the number of departments has remained relatively constant over the period the increasing size of Cabinet could be partly a response to its growing contacts with these organizations. These two changes shall be examined in turn.

Increasingly, the State has been able to call on an enlarged share of the nation's resources. Government expenditure, expressed either with or without transfer payments, has shown a slow but steady increase since 1950, with an acceleration in this trend in the middle and late 1970s. In 1974 total public expenditure,[1] defined to include

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[1]By excluding transfer payments which "involve a transfer of income and purchasing power from some people or organizations in the community to others as benefits, pensions or subsidies", it is possible to calculate the proportion of national resources that the government

spending by government departments, local authorities, corporations and statutory bodies, amounted to 23.3% of New Zealand's gross domestic product, while in 1976 this figure had risen to 29.2%. After a slight decrease in 1977 and 1978, government spending again peaked at over 29%. As a result the ability of the government to make decisions about the distribution of national resources has grown considerably.

It is beyond the scope of this study to examine the reasons for this growth in depth.[1] Nevertheless, it is interesting to note that the period of fastest growth in public spending coincided with a period of high inflation. Lang[2] suggests that this is because governments have used public expenditure to stimulate an economy wracked by high levels of inflation. With the whittling away of personal incomes, there has been a growing demand for government to redistribute the nation's wealth to the economically depressed. Since health, education and welfare expenditure amounts to nearly 55% of public expenditure and since the level of inflation appears unlikely to drop in the near future it seems likely that the level of government spending will not decrease markedly. As Lang observes, "the difficulty of cutting the built-in explicit and implicit commitments is large indeed."[3]

Another measure of the size of government is the number of

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is directly utilizing. This figure is used in the following analysis. The figures are not as 'dramatic' as those which include transfer payments because transfers have increased as a percentage of the gross domestic product in recent years but this does not affect the validity of the argument. See, New Zealand Planning Council, *Public Expenditure and its Financing: 1950-1979* (Wellington: New Zealand Planning Council, 1979), p. 6.

[1] See particularly R. Klein, "The Politics of Public Expenditure: American Theory and British Practice," *British Journal of Political Science*, 6, 4 (1976), pp. 401-432; A. Robinson, *Parliament and Public Spending* (London: Heinemann, 1978), Chapter One.

[2] H. Lang, "Government Expenditure and Taxation," *The Professional Administrator*, 25, 2 (1978), p. 5.

[3] Ibid., p. 6.

people it employs. This too has been increasing since the end of the second world war and especially in the period from 1960 to 1970. More significantly, the number of public servants has been increasing at a faster rate than the total population and even during a period when the population was in decline, the public service managed an increase of nearly seven per cent.[1] In 1979 there were 84,516 public servants but this actually underestimates the total number of government employees. The figure does not include those in the armed services, the police force, the Post Office, the Railways, the state education service and the health service, all of whom are considered to be 'state servants' in a more general sense. With all these groups included, public sector employment amounted to nearly 250,000 people in 1979 which was approximately one fifth of the work-force.

What this means, as Peters has noted, is that individuals will more frequently come into daily contact with government workers and that their lives are more likely to be influenced or regulated as a result.[2] Moreover, the increasing size of the bureaucracy means that the state unions have also grown in strength, which improves their bargaining position in relation to the government, encouraging them to seek greater increases for their members. This too helps to push up the level of government spending.[3]

Not only is the public sector large and growing in New Zealand,

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[1]This was despite the operation of a government staff reduction policy over the 1976-79 period which demanded an annual decrease of 1½ per cent.

[2]B.G. Peters, *The Politics of Bureaucracy* (New York: Longman, 1978), p. 20.

[3]The relationship between pay increases for state servants and the level of government spending was recognized by the 1977 Public Finance Act, s. 55 (3)(a). It permits unauthorised expenditure to amount to 1½ per cent of the total appropriated in any year or "2½ per cent, in any year in which an increase in remuneration is paid to employees in the State Services."

its influence is being increasingly felt in the private sector. There has been a change in the manner in which public policy is implemented as well as change in its scope. It is not intended here to chart the development of post-Keynsian economic theory and its impact on the New Zealand financial system but some contemporary norms about the role of the state in the private sector can be listed. With the development of the welfare state, government assumed a far larger role in the economy than it had previously. The public sector has provided public goods such as defence, law and order maintenance, and the communications infrastructure as well as carrying out health, education, welfare, power and transport functions. Many of these exist in direct competition with the private sector, so the State regulates the market. "Competition (has been) encouraged, but within limits imposed by the state acting in what is considered to be the public interest,"[1] and so "the supposedly damaging effects of open competition" are mitigated.[2]

Quite apart from these constraints, state control over the private sector has increased with government efforts to achieve economic stability in the face of high inflation.[3] So, at times, the prices of key goods and services are controlled; there are codes of conduct to regulate the business community; there are import controls, constraints on physical and social planning, and regulations to promote development, encourage growth, and oversee employer-employee relations.

All this, according to one recent study, has led to "a broad consensus on what the state should provide,"[4] which is that "New Zealanders relinquish part of their individual freedom to a government

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[1] New Zealand Monetary and Economic Council, *The Public Sector*, Report No. 31, October 1976. Wellington, Government Printer, 1976, p. 6.

[2] Ibid., p. 10.

[3] Ibid., p. 7.

[4] Ibid., p. 12.

which attempts to synthesize collective desires and implement social priorities."[1] It is argued that "Government intervention ... is still welcomed or at least accepted in many areas of private economic activity."[2]

One aspect of this which has weakened governmental accountability has been the increased use by government of public corporations and other semi-autonomous statutory organizations. Designed for a multitude of tasks supposedly unsuited to departments they range from the insignificant, such as the Artificial Limbs Board, to such substantial spenders as the Tourist Hotel Corporation and Air New Zealand.

The relationship between government and these organizations is confused, reflecting differing and often simultaneous expectations of independence and control.[3] Governments have not been consistent in their reasons for, and methods used, in creating these bodies, so that some are required to follow ministerial direction and not to report to Parliament while others, and in particular the primary producer boards, "have managed to develop and retain an image of independence and specialised status."[4]

Naturally, this has given rise to some criticism. The Task Force on Economic and Social Planning (the Holmes Report) was critical of the 'political' nature of appointments and staffing, an increasing number of which were being made by the government caucus. It noted:

> the question is whether we are now placing too large a part of New Zealand life under the control of men and women who are neither elected by the people (as with Min-

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[1] New Zealand Economic and Monetary Council, *The Public Sector*, p. 12.

[2] Ibid., p. 6.

[3] I.A. Webley, "State Intervention in the Economy: The Use of Public Corporations in New Zealand," in S. Levine (ed.) *Politics in New Zealand: A Reader* (Sydney: George Allen and Unwin, 1978), p. 43.

[4] Ibid.

isters, Members of Parliament and local body members), nor selected by a process which formally assesses merit. 1

Moreover, there is considerable doubt as to how many of these agencies there are. Palmer[2] maintains that in 1978 there were some 1,268 while the State Services Commission lists 537 for the previous year.[3] The important point is not that there are too many corporations and boards but that their creation appears to take place on an ad hoc basis when problems occur. Thus their creation does not take place "within the framework of any review of the scope and definition of public accountability."[4]

Finally, it should be noted that there is some doubt as to whether the Public Expenditure Committee of Parliament can call the executives of these agencies to answer for their use of public funds.[5] Also, although most of these bodies submit their accounts for audit, four do not.[6] In any case their public accountability for administrative efficiency or programme effectiveness is negligible.[7]

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[1] Report of the Task Force on Economic and Social Planning, *New Zealand at the Turning Point* (Wellington: Government Printer, 1976), p. 256.

[2] G. Palmer, *Unbridled Power?* (Wellington: Oxford University Press, 1979), p. 36.

[3] C.J. Barton, *Statutory Functions and Responsibilities of New Zealand Public Service Departments 1977* (Wellington: Government Printer, 1979).

[4] J. Garrett, *The Management of Government* (Harmondsworth: Penguin Books, 1972), p. 194.

[5] *A.J.H.R.* 1971, I 12, pp. 30-34.

[6] See Chapter Three.

[7] Treasury supervision of these bodies was described by the Auditor-General as "an action of the executive, terminating, as a rule, in a Cabinet decision without consultation with Parliament ... there is an inherent tendency for these inquiries to arise from financial difficulties and to take place in an atmosphere of stress because the undertaking needs help quickly. The result is ... that little time is given to other undertakings which, though not claimant for attention, are not as economic or as efficient as they might be." *A.J.H.R.* 1974, B 1 (Pt 111), p. 9.

2. MINISTERS AND THE ADMINISTRATION

One belief about the bureaucracy which is commonly held is that it is apolitical. Politicians, it is thought, make policy; public servants administer and implement it. More recently has come the recognition that not only does the bureaucracy formulate policy, in some cases even the Minister is supplanted in this respect. Although few Ministers would care for their departments to go on forging new policies without their involvement it is nevertheless true that the size and complexity of government has weakened the control Ministers have traditionally been held to exert. The ramifications of this for accountability are considerable. If it is difficult enough to hold Ministers to account for their actions, how much more difficult will it be for Parliament to attach responsibility to individuals in the civil service.

The myth of the neutral and apolitical civil servant has been eroded by a number of factors. One has been the growing number of political appointments made to the semi-autonomous government agencies. Although not part of the public service in a narrow sense, executives of these organizations nevertheless control a proportion of public funds. For the untrained observer the differences between these bodies and the departments are minimal. Another has been the increased visibility of senior civil servants and permanent heads, publicly defending their departments' policies and articulating their objectives.[1] A third factor has been the increased attention given to bureaucracies in recent years by academics and the media.

In New Zealand Thomas Smith's study of the public service in the last days of the Holyoake administration revealed an intense politic-

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[1] Noel Ruth, "The New Zealand Planning Council: The Background to Planning," *The Accountants' Journal*, 57 (1978), p. 316.

isation amongst middle level administrators.[1] Well over half of Smith's respondents (56.3 per cent) indicated that their role was the development and implementation of policies, while a further twenty per cent maintained that they almost exclusively formulated policy.[2] Thus even though few of the respondents could claim any great seniority in their departments they were already heavily involved in policy formulation.

So while the power and influence of the public service has become more apparent it would seem also that Ministers have less control over their departments than was previously imagined. For a number of reasons, and here one could borrow from the proposition put forward by Butler,[3] Ministers in Wellington have less control over their departments than do their counterparts at Westminster. Assuming that the New Zealand political system does not throw up markedly superior individuals to those in Britain the pool from which the Cabinet may be chosen is much less in New Zealand. This is especially so since the Prime Minister is usually limited in his selection to those who have spent at least three years in the House.

In addition, New Zealand Ministers 'politik' a great deal and remain heavily committed in their electorates; their offices are physically separated from their departments and they spend only a small part of their time in those departments; also, there are fewer junior or associate Ministers so more Ministers have sole charge of their departments; there are fewer ministeral staff of educational excellence and fewer research units to counter or call into question depart-

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[1] Thomas B. Smith, *The New Zealand Bureaucrat* (Wellington: Cheshire, 1974), pp. 112-113.

[2] Ibid., p. 113.

[3] David Butler, *The Canberra Model* (London: Macmillan, 1973), pp. 27-35.

mental advice. Common sense reveals that Ministers cannot know all that goes on in their departments, for many have the responsibility for more than one. In 1979, for example, 10 Ministers had the supervision of three government agencies, while four had four portfolios, and a further three had five or more.

How then do Ministers maintain control over their departments? One ex-Minister has suggested that while all Ministers have the authority to intervene, few have the power to do so. Thus,

> if need be, he can direct the department head to carry out his wishes. In my experience, not more than twenty per cent of the Ministers had the strength to do that. [1]

Another reduced his control to hunches and suspicions. As he put it:

> You get a sort of sixth sense. You suspect that there's something missing, that something hasn't been properly reported on just by some line being missing, and so you decide that's the one you'll have investigated. [2]

All this is not to suggest that Ministers are totally incapable of having their policy decisions implemented or controlling their departments. That is patently not so and the individual strength of the Minister can make as much difference to the equation as the size and virility of the department does. However, it is suggested that there are some very real impediments to effective ministerial control and consequently to any meaningful degree of accountability.

This weakening of ministerial control has been long recognized. The McCarthy Commission, for example, noted that:

> even under the most advantageous physical conditions, (Ministers) would, we are sure, find it impossible to give a great deal of attention to the detailed administration of their departments. [3]

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[1] W.J. Scott, "Few Ministers Direct Department Heads," *New Zealand Herald*, 3 March 1980, p. 6.

[2] A.V. Mitchell, *Government By Party* (Christchurch: Whitcombe and Tombs Ltd., 1966), p. 116.

[3] Report of the Royal Commission of Inquiry, *The State Services in New Zealand* (Wellington: Government Printer, 1962), p. 32 (McCarthy).

The Commission, however, saw no need to move away from the doctrine of ministerial responsibility. "The constitutional position of individual departments is clear," it said, "each Minister of the Crown is accountable to Parliament for the administration of his department, and, consequently, for its efficiency and economy."[1] This view was echoed by the Task Force on Economic and Social Planning in 1976. Ministers, it said, "must ... continue to bear, as they do now, political responsibility for the policy objectives as well as the administration of their departments,"[2] but it warned of the dangers Ministers faced by becoming immersed in trivia.

Although the Task Force was not prepared to go as far as the Royal Commission in Australian Government Administration (RCAGA), in suggesting that departmental managers should be accountable to Parliament for the finances entrusted to them,[3] it admitted that the public must look to the departments rather than the Ministry for an effective bureaucracy. Thus,

> Consideration of the effectiveness of public administration in New Zealand must concentrate on the work of departments and the management role of senior departmental staff rather than on the ultimate power of Ministers to intervene in matters of administrative detail ... 4

So there has been a curious acceptance of the inability of individual Ministers to control amorphous government departments but with no accompanying rejection of the principles of ministerial responsibility.

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[1] Report of the Royal Commission of Inquiry, *The State Services in New Zealand*, p. 31.

[2] Holmes, p. 246.

[3] See: P. Self, "The Coombs Commission: An Overview," and R.S. Parker, "The Public Service Inquiries and Responsible Government," in R.F.I. Smith and Patrick Weller (eds.), *Public Service Inquiries in Australia* (St. Lucia, Queensland: University of Queensland Press, 1978), pp. 314-322 and 334-349.

[4] Holmes, p. 255.

3. PARLIAMENTARY CONTROL OF THE ADMINISTRATION

Together, factors such as the size and complexity of government, the level of bureaucratic involvement in policy making and the apparent inability of Ministers to exert their influence in their departments, are held to have contributed to a decline in the viability of the Westminster model of parliamentary government.[1] It is not intended to enter this debate at this point, for as Herman and Lodge have noted "there is no consensus as to what Parliaments have declined from or what they have declined to."[2] However, with regard to Parliament's seeming inability to control the administration some factors should be mentioned. One of these has been "the growth of mass, organised and disciplined parties which have led to parliamentary debates and votes becoming a mock struggle or formality containing few elements of surprise or drama. Most matters are now decided in party caucus in advance of being publicly debated ... Consequently, the proceedings of parliament ... are often predictable and of little interest to the public."[3] This appears to be true also of parliament's ability to control government spending. Since it is in the hands of the majority of its members "the government through the application of its majority ... and not Parliament itself, carries the prime responsibility for the control of ... both taxation and expenditure."[4] Thus, if the direction of these matters is to remain an executive prerogative, the

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[1]See, for example, Robinson, especially Chapter One; S.A. Walkland and Michael Ryle (eds.), *The Commons in the Seventies* (Fontana/Collins, 1977); Valentine Herman and Juliet Lodge, *The European Parliament and the European Community* (London: Macmillan, 1978), Chapter Two; David Shand, "Parliamentary Control of the Public Purse - How Real?" *New Zealand Journal of Public Administration*, 34, 2 (1971), pp. 59-73.

[2]Herman and Lodge, p. 20.

[3]Ibid., p. 19.

[4]Michael Ryle, "Parliamentary Control of Expenditure and Taxation," *Political Quarterly*, 38, 4 (1967), p. 436.

need for effective accountability is considerable.

In the past, parliamentary oversight of the administration has supposedly been ensured by the doctrine of ministerial responsibility. There are two elements to the doctrine: one is that Ministers are expected to explain to Parliament and answer for the actions of the departments they head. The other is that, collectively as the Cabinet, Ministers must take the responsibility for their own policy decisions. When they cannot command a majority of the House on a matter of importance to them, or when censured, the doctrine requires that they resign. A third element which is often interposed between these two, but which is more doubtful, is that Ministers individually should resign for unpardonable blunders in their departments. But, as Finer has very clearly demonstrated, few Ministers resign for these reasons: departmental incompetence is not usually followed by this self-inflicted punishment. In fact, he suggests:

> that sequence is not only exceedingly rare, but arbitrary and unpredictable. Most charges never reach the stage of individualization at all: they are stifled under the blanket of party solidarity. [1]

There is an interplay between collective and individual responsibility which protects Ministers so that it is only when the mantle of Cabinet is withdrawn that the Minister becomes vulnerable.[2] But where a Minister's personal conduct is at issue, where his actions have offended his own party, or where the Prime Minister is not prepared to stand by him, then the principles of collective responsibility may not come to his aid and it is more likely that he would resign.[3]

In New Zealand only one Minister has resigned since 1900,

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[1]S.E. Finer, "The Individual Responsibility of Ministers," *Public Administration*, 34, 4 (1956), p. 393.

[2]Ibid., p. 389.

[3]Ibid., pp. 390-393.

principally because his own actions were reprehensible,[1] yet Oppositions continue to focus on the rather empty point that resignations should follow departmental incompetence.[2] What they have failed to recognise is that the concept of 'answerability' is still a viable part of the doctrine so that information which might be used to call governments to account for their actions is consequently not sought. This is especially the case with parliamentary questions.

The traditional method of holding Ministers accountable for their departments' activities has been Question Time. The theory is stated by Butler,[3]

> The great quality of the doctrine of individual ministerial responsibility is that it forces a Minister to dig - or to get his officials to dig - down into his department, to explain his department's actions and to find remedies in cases of demonstrated error. The sanction on his doing this is that his political reputation depends on it. The essential virtue of question time lies in the implication that Ministers must respond.

In recent years the amount of parliamentary time given over to questions

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[1]The Report of the Commission on Native Affairs in 1934 concluded that Sir Aparana Ngata, then Minister of Native Affairs, had conducted the affairs of his department without properly accounting for Government moneys and stores and without the correct departmental checks. The Minister, it said, looked to his own tribe and associates first because he was a Maori, and used state funds in their interests. "Influenced by his method of approach, by his success in the field, and by his enthusiasm, the Minister launched scheme after scheme without reasonable regard, as a Minister of the Crown, to the need for properly accounting for state funds." The Minister's attitude "was such as to render regular departmental administration impossible." The Report of the Commission on Native Affairs, *A.J.H.R.* 1934, G. 11, pp. 39-40.

[2]See, for example, the calls for the resignation of the Minister of Transport following the Mangere Airport Crash in 1979. *New Zealand Parliamentary Debates (N.Z.P.D.)* 1979, 24, p. 3058. The purpose of the resignation call must now be seen to be political - as one further method of highlighting through the media, the inadequacies of the government of the day. This is doubly so in this case for the Prime Minister would not remove the Cabinet shield since the Transport Minister was important to his own position. Finer suggests that if the Prime Minister backs a Minister, then no matter how errant he may be, he will remain. See Finer, p. 393.

[3]Butler, p, 51.

has increased - with a change in the Standing Orders in 1974 the total went from 10 per cent to 19.6 per cent[1] - but the amount of information generated has probably not shown a proportionate increase. The information produced is limited both by the Standing Orders and by the use to which questions are put.

The Standing Orders prohibit some questions (S.O. 87), specifically those which attempt to ascertain government policy over a wide front, or refer to current debates, or which might anticipate discussion of an Order of the Day. Supplementary questions are allowed at the discretion of the Speaker, but S.O. 83 allows Ministers to deputise for their colleagues, thus limiting the range of supplementaries open to the Opposition, which might elicit more information. Consequently, poor Ministers can be carried; they need not respond.

Naturally, Ministers try to avoid giving away information if they can possibly help it while government members will ask questions simply to prevent other members from doing so. The government can "stack the order paper with pseudo-questions which Ministers can use for blatant public relations purposes."[2] Mostly, question time is used by members promoting the interests of their own electorates[3] or as an opportunity for the Opposition to mount sustained team attacks on the government.[4]

Clearly, although questions may keep departments responsive to Parliament, their use for political purposes prohibits them from being

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[1]Palmer, p. 47.

[2]L. Cleveland, *The Politics of Utopia* (Wellington: Methuen, 1979), p. 103.

[3]M. Waring, "Power and the New Zealand M.P.: Selected Myths About Parliamentary Democracy," in Levine, p. 89.

[4]M. Finlay, "A Former Minister Looks at Parliament," in Sir John Marshall, (ed.), *The Reform of Parliament* (Wellington: New Zealand Institute of Public Administration, 1978), p. 75.

an effective mechanism of accountability. There are a number of other avenues open to members for the control of the government administration including personal correspondence with Ministers, notices of motion, adjournment debates and so on. One very important constraint on government has been the Public Expenditure Committee and this is discussed later. However, most of these procedures lack two prerequisites to make them effective. One is that individual members cannot get access to the kind of information necessary to authoritatively challenge Ministers while the second is that they lack the vital element of publicity. It is only when a matter has a political cost that it is effectively dealt with by government.

The ability of the legislature to enforce and demand accountability is not very great. It has proved difficult for Parliament to ensure that accepted norms and legal rules are not transgressed for its procedures, designed for an earlier age, have not readily yielded information on governmental or bureaucratic decisions.

But what of accountability for administrative actions which are simply inefficient or uneconomic? To the extent that Ministers are held responsible for this aspect of their department's activities the same problems apply. However there are a number of other actors involved in ensuring efficiency and economy in the public sector. How effective they have been is examined next.

4. ACCOUNTABILITY FOR EFFICIENCY

The administration of government policy in the most efficient and economic manner has been a perennial concern of the state services. When governments follow a policy of financial restraint, the desire to maintain the effective size of departmental budgets and to prevent any embarrassing depreciation in the quality of services, ensures that the need to secure value for money is even greater.

The present structure of efficiency and economy has many component parts whose functions overlap. Ministers share their concern for efficiency with their departmental heads, the State Services Commission (SSC), Treasury, internal audit groups within departments, the Ministry of Works, the Audit Office, and Parliament's Public Expenditure Committee. In spite of all this there are still complaints, some of them authoritative, that public funds are being unsoundly managed[1] or ineffectively applied.[2]

Ministers and Permanent Heads

It has been shown that the need for governmental accountability means that the Cabinet collectively and Ministers individually must answer for their labours and this includes the overall efficiency of the governmental process. When, in 1962, the McCarthy Commission argued that Ministers were unable to discharge this responsibility adequately, it merely restated a fact which had long been recognized. The onus had always been in the permanent head to ensure that his department is efficiently and responsibly managed. The State Services Act 1962 and the Public Service Regulations 1964 made this quite clear. By section 25 of that Act the permanent head is held "responsible to the Minister for the time being in charge of that Department for (its) efficient and economic administration". Specifically, permanent heads are required to review the functions and policies of their depart-

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[1]See the remarks of K. McDonald, Director of the New Zealand Institute of Economic Research, in *Christchurch Star*, 13 July 1978.

[2]Criticism came from Mr L.C. Bayliss, in *The Press*, 28 June 1978, and was answered by the Chairman of the State Services Commission, Dr R.M. Williams, *The Press*, 1 July 1978, and by a permanent head, Mr J.F. Robertson, *Christchurch Star*, 24 October 1978. For a commentary by the media, see "Public Service and Efficiency," *The Press*, 30 June 1978.

ments and report to the Minister every five years.[1]

But for a number of reasons permanent heads have been constrained in the effective discharge of this function. One is that many departments, particularly those of an administrative, rather than a trading nature, have no simple criteria by which to judge their efficiency. Private sector measures such as financial viability are not so easily applied to government.[2] It is therefore necessary to devise more specific measures appropriate to the functions of individual departments, a task which should be carried out by specialist internal audit groups but which, for various reasons, is not.[3]

Another is that the five yearly reviews are, by definition, internal. For a permanent head to highlight the deficiencies of his own department would be to provide a commentary on his own capabilities as a manager, so there is little incentive for critical self-examination.

But the most important constraint would appear to be the frag-

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[1] Regulation 64 (a), Public Service Regulations 1964.

[2] For a discussion of the profit orientation in the public sector see: D.A. Shand and J.R. Battersby. "Role and Concepts of Profit in the Public Sector," *New Zealand Journal of Public Administration,* 38, 1 (1975), pp. 25-38.

[3] The difference between internal and external audit should be distinguished. The former in any large organization is usually a staff group instituted to provide advice to management or to enforce standards and procedures. Although employed by their clients, internal audit groups are expected to be objective and independent. External audit, which is the focus of this study, is in no way subject to managerial directives, financially independent of its clients, and provides services which it alone considers suitable. It is a recognizable, self-contained entity, which issues its own directives and employs its own staff.

The potential of internal audit as a management tool has not been recognized by departments. Officers are often preoccupied with personnel and office accommodation problems. Internal auditors lack a professional approach and generally have inadequate status, qualifications and skills. Since such a low priority is accorded to their duties they are often required to report on the decisions of immediate superiors. Their objectivity and independence therefore suffers and they are constrained from challenging departmental assumptions or revealing unpleasant discoveries. See *A.J.H.R.* 1978, B 1 (Pt IV), pp. 35-36 and Garrett, pp. 213-232.

mentation of responsibility between the actors concerned. Ministerial directives may often have important consequences for the efficient administration of a department. Where there are frequent policy changes initiated by Ministers for political reasons efficiency will suffer. So, while the effective control of departmental efficiency rests with the permanent head, Ministers are ultimately and constitutionally responsible as well. Thus there is an overlap of responsibilities which can create problems.

Ministers relying perhaps on their 'sixth sense' frequently intervene. Smith records that nearly half of the administrators he interviewed complained of "decisions made for political rather than programmatic reasons" and there was frustration with Ministers' requests for information, political favours and decision changes.[1] Cabinet directives and Cabinet committees are also part of the efficiency structure. In December 1978, for example, a Cabinet minute required all Ministers to consider the efficiency and effectiveness of the programmes carried out by their departments. Also, throughout 1978, a special committee of Ministers examined departments with a view to improving their efficiency through the reallocation of functions.[2]

The State Services Commission

In 1962 the McCarthy Commission was specifically charged with receiving "representations upon and inquir(ing) into the ... Departments of State ... and to recommend such changes therein as will best promote efficiency, economy, and improved service in the discharge of public business."[3] It recognised that the efficiency structure was fragmented and rundown, particularly the relationship between the Min-

[1] *The New Zealand Bureaucrat*, p. 113.
[2] *The Press*, 18 April 1979; see also 1 February 1978.
[3] McCarthy, p. ix.

ister and his permanent head. Its solution was to propose an overreaching control agency which would pull the structure together and give it direction.

McCarthy attributed the weaknesses of the old Public Service Commission to its independence from government, believing that its personnel function had depreciated its "even more important, and simultaneous function of ... maintaining efficiency and economy."[1] Preferring to locate the efficiency function in a fully integrated executive agency, McCarthy recommended that a State Services Commission be set up as a department of state, responsible to the Prime Minister. It argued:

> such direction, in our system of democracy, must come from the elected government of the day ... It follows that any control agency concerned with the efficiency and economy of the State Services as a whole should be responsible to the Prime Minister as head of the government. 2

But the Commission did not recommend that the personnel and efficiency functions be kept separate in the new organization, believing that with the support and prestige of the Prime Minister, the efficiency function would not be subsumed by the other. In fact, at least until 1976, this problem befell the SSC as well. As the Holmes Report remarked, and as its published reports reveal, "personnel issues and industrial relations still appear to dominate the work of the Commission."[3]

The State Services Act 1962, which gave effect to McCarthy's proposals, posited a close relationship between the SSC and the permanent head.[4] The SSC was charged with promoting the efficiency of

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[1] McCarthy, p. 49.

[2] Ibid., pp. 34-35.

[3] Holmes, p. 258.

[4] J.F. Robertson, "Efficiency and Economy in the New Zealand Public Service," *New Zealand Journal of Public Administration,* 28, 1 (1965), p. 87.

departments and ensuring that the permanent heads did likewise.[1] But McCarthy's hopes for the new agency were not easily fulfilled.

The main problem arose through the SSC continuing to perform both the efficiency and personnel functions. Since the permanent head neither employs his line staff nor regulates the conditions of their employment he has few sanctions with which to promote efficient administration. Although the SSC, as the principal employing agency for the public service, has delegated many of its powers to departments, permanent heads do not have the freedoms of staff control enjoyed by the private sector. The permanent head is unable to reward merit in his department through varying rates of pay, he cannot fire the inefficient or the sluggish, nor can he significantly alter the size of his department to deal with new tasks as they arise or others as they are completed. Crucially, many departments have been conceptually unable to separate the two functions of the SSC, so that wrangles over staffing have often mitigated the efficacy of the efficiency exercise. According to Robertson,

> It is difficult for a permanent head to put himself in the frame of mind to accept leadership from the Commission in efficiency and economy when he might concurrently have been declined higher gradings for his staff or denied establishment increases. 2

Initially the SSC's efficiency audits were carried out by an inspectorate. At the outset the Commission admitted that "it would be virtually impossible for inspectors ... to measure competence in the vast array of technical disciplines in the service."[3] Rather, it hoped that the inspectorate would review control, inspection and reporting procedures, assess sample inspection reports, and undertake detailed insp-

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[1]State Services Act 1962, s. 12 (b).

[2]Robertson, "Efficiency and Economy ...," p. 98.

[3]*A.J.H.R.* 1965, H. 14, p. 19.

ections "where departmental reports show this course to be desirable."[1]

In fact, the inspectorate became bogged down in the minutiae of departments, concentrating more on departmental methods and procedures than on the quality of their organization and management. The departments, moreover, were often piqued by what they saw as "outside interfering and snooping", while the Public Service Association was suspicious of the Commission's investigations, since the SSC was also the employer of most of its members.[2] Again the SSC was confronted with the difficulties of trying to wear two hats.

Late in 1975[3] under the direction of K. Puketapu, the Commission reorganized its efficiency services into three groups; management support, management services and management audit. The four management support groups which replaced the inspectorate blocks have not dealt with matters of efficiency except in so far as efficiency results from improving personnel management. The groups have been responsible for classifying positions, reviewing staff ceilings and salary scales, investigating and negotiating pay claims, and the restructuring of the occupational classes.[4] The management services branch exists as a consultancy service for management problems, undertaking service-wide or departmental assignments on its own initiative or at the request of a department. As an example of the unit's work since 1976 the section has considered problems relating to the retention and disposal of departmental records, the use of photographic reducing equipment and administrative procedures related

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[1] *A.J.H.R.* 1965, H. 14, p. 19.

[2] O. Riddell, "Internal Checks on Taxpayers' Servants," in *The Press*, 25 August 1977.

[3] See A.C. Davis, "Management Audit in the New Zealand State Services," *New Zealand Journal of Public Administration*, 39, 2 (1977), p. 42.

[4] *A.J.H.R.* 1977, G. 3, p. 6; and 1978, G. 3, pp. 7-8.

to foster care in the Department of Social Welfare.[1]

But for the promotion of efficiency probably the most important section of the Commission has been its management audit unit. In 1976 a Cabinet instruction required departments to set up a permanent reviewing system to assess their efficiency on a continuous basis. The management audit unit took on the tasks originally performed by the inspectorate plus the job of assisting departments to institute these systems.[2] The Commission has clearly had good intentions: the audit has been concerned with "promoting and assisting departments to review the effectiveness of their internal management and functions."[3] To avoid the "outsiders" charge the SSC adopted a non-adversarial approach, with reviews being undertaken by joint SSC/departmental teams. But this may be one of the reasons why the unit has been less than totally successful. Clearly, the effectiveness of the audit relies on departmental co-operation and this, in turn, hinges on confidentiality. But confidentiality ensures that the failure of departments to comply with the SSC's recommendations is not made public. Also, recommendations are only binding when departments agree to implement their proposals.

Another reason would appear to be the use made by the SSC of retired permanent heads to carry out these audits. While this guarantees the audit group prestige in the departments and opens the way for high-level communication, it also means that the audit personnel may be reporting on the efficiency of organizations headed by close personal friends.

It is possible too that ex-permanent heads and other senior staff could be subject to habits which would cause them not to call

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[1] *A.J.H.R.* 1977, G. 3, p. 6; and 1978, G. 3, p. 8.

[2] Riddell, *The Press*, 25 August 1977.

[3] *A.J.H.R.* 1979, G. 3, p. 7.

into question some practices. The low status currently accorded many finance staff in departments suggests that some permanent heads do not see the financial management function as being as important as others. Clearly, assumptions of this nature could be carried over into an efficiency audit team. Beyond this, it is also doubtful whether the Commission could muster the necessary skills in its management audit group. It is likely that teams which go into departments may not contain the right mix of personnel and expertise to cope with the particular problems they present.

But perhaps the most important is that the unit usually provides a service on demand. Departments generally initiate the enquiries the SSC makes. Although the Commission may carry out an audit at its own instigation, it cannot be aware of the quality of management throughout the entire public service so it may not know where to start. Consequently, it must rely on Ministers (who, themselves, may not be totally aware of the efficiency of their departments) and permanent heads to seek its aid. That this should be almost a precondition of an efficiency audit means that those departments which most require the application of modern management techniques may not get them.

The Treasury

The role of Treasury in the efficiency structure has been only marginally less than that of the SSC. Its objective has been "to maintain efficiency and economy in expenditure"[1] primarily through holding departmental accounting officers responsible, under the Treasury Regulations, "for their stewardship of Government finances and accounting control systems."[2] In fact, Treasury's task has been more

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[1] The Treasury, *The Planning and Control of Government Expenditures*. Wellington, 1973, p. 11.

[2] Ibid.

than this for it has been involved not only in the development of accounting systems but also in the promotion of efficiency in its role of economic advisor to the government. It oversees and may cut departmental estimates and it supplies comments to Cabinet on any policy which utilizes public funds.

Recently, however, Treasury has been criticised on both counts. In particular it has been suggested that the financial role had been downgraded through greater resources being applied to the economic advice function.[1] There has been a tendency, too, for fewer Treasury personnel to have accounting qualifications. One study consequently concluded that:

> Treasury is not at present in a position to provide the necessary leadership in financial management and establish the requirements for modern management information systems. [2]

Similarly there has been criticism of the brevity of Treasury reviews of departmental expenditure which has resulted from the too frequent transfer between departments of the investigating officers. The result has been that "Treasury recommendations and cuts in expenditure proposals (have been) often arbitrary and non-specific."[3]

In Australia similar problems resulted in the splitting of the two functions into two departments. This has not occurred in this country but there have been moves to have the financial control function improved which are discussed in Chapter Three. These may lead to some changes in Treasury's contribution to efficiency and economy.

The answer to the question, then, who is responsible for the efficiency and economy of government, is a long one. Cabinet and its committees, individual Ministers, permanent heads and departmental

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[1] *A.J.H.R.* 1978, B 1 (Pt IV), p. 12.

[2] Ibid., p. 13.

[3] Ibid., p. 24.

audit groups, the SSC and Treasury all must be included. Also, although they are not discussed in this chapter, the Audit Office and the Public Expenditure Committee have in more recent times taken on key roles in the efficiency framework and they too should be mentioned.[1] The structure is fragmented and complex; its many overlapping layers diffuse the responsibility for efficiency and makes accountability very difficult.

Moreover, certain consequences appear to flow from this structure. In particular, there has been a need for co-ordination and co-operation which may not occur. For example, although Ministers of departments which undertake an SSC review and the Audit Office are both sent copies of the report the Public Expenditure Committee is not. The Committee receives only a summary of the recommendations made and a table showing the extent of departmental acceptance. The PEC has been unhappy with these arrangements and has lately complained that its involvement and effectiveness have been inhibited.[2] On another occasion the PEC noted that it had 'backed off' from an enquiry when it was discovered that Cabinet and Treasury were already investigating.[3]

If there is a lack of co-ordination, and the paucity of information on these matters means that speculation only is possible, then two consequences may result. One is that departments are being choked by a multitude of regulations and controls instituted by the control agencies in the quest for efficiency. The other is that the overall

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[1]The Ministry of Works also has a role through its co-ordination and control of the capital works scheme. See *A.J.H.R.* 1973, B 1 (Pt 11), pp. 8-9; 1978, B 1 (Pt IV), pp. 27-28; and E.E. Winchester, "A Systems Evaluation of the Planning and Control Procedures for Existing Policies: The Government Planning Programming, Budgeting System," January 1976 (typescript).

[2]*A.J.H.R.* 1979, I 12, p. 7.

[3]Ibid., p. 12.

efficiency of the public service may be slipping through the holes. Although it is difficult to tell whether gross inefficiencies do exist in the public service, departmental complaints about the over-regulation of their activities suggest that, for the moment, it may well be the former which is the case.

5. SUMMARY

Accountability and efficiency are very clearly not two separate problems, but part of the same problem. The growth in government and the change in its nature have meant that the traditional mechanisms for ensuring both accountability and efficiency are beginning to show their age. The relationship between Ministers and their departments is a weak one, and Parliament seems unable to solve the problem, either because it is not structured to do so or because its members do not want to. In addition, Treasury and the SSC seem ill-suited to any kind of efficiency audit: with overlapping responsibilities and a seeming lack of co-ordination it may well be that efficiency falls somewhere in the middle. Certainly, the increasing size of government has made it more difficult to retain effective control.

McCarthy's rationalization of the efficiency structure now appears to be dated; there is a need for a new rationalization and a more modern and sophisticated approach. Specifically, what is required are procedures for demanding not only accountability for administrative decisions but also for departmental efficiency and programme effectiveness.

Whether or not that task could be performed by one agency is a moot point. If it was, it would need to be totally divorced from personnel management so as not to suffer the weaknesses of the SSC.

Any control organization required to straddle the gap between the executive and legislative branches of government would require both effective and orderly parliamentary links as well as political clout and prestige. Without the former Parliament would take no notice and without the latter it would not be able to win the co-operation and confidence of departments which would be a pre-requisite of its effectiveness. Not surprisingly, the possession of both these capabilities is a rarity.

One organization which does fall into this category and which is presently going through a period of role expansion is the Office of the Auditor-General. Through the exercise of his statutory mandate to audit the nation's financial affairs the Auditor-General has sought to ensure financial rectitude in the public service while at the same time shoring up the process by which accountability is realised. There have been extensive changes in the duties of state auditors in recent years involving a broader definition of the auditor's mandate. This has resulted in a move beyond questions of legality and regularity to the measurement of departmental efficiency and effectiveness. New Zealand has been no exception to this trend. But whether or not these changes go any way towards solving the problem of accountability is uncertain. How some western parliamentary democracies have approached the problem and the use they have made of increased auditing services is analysed in the next chapter.

CHAPTER II

THE MODERN ROLE OF THE GOVERNMENT AUDIT

> Independent audit is the essential final step in the accountability for public funds.
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The duty of the public sector audit agency to demand accountability for the administration of public funds has been unquestioned for over a century. Its traditional role, which has reflected the equally traditional notion of accountability discussed in the previous chapter, "has been to enforce regularity in the expenditure of public funds, or conformity with accepted administrative and fiscal procedures together with correct accounting and the observance of legality ...".[1] But there has been no consensus over what the modern role of the audit agency should be. Although there is agreement that the "general objective ... must be to maintain the public's confidence in the administration of government activities through enforcing and strengthening the process by which complete accountability can be realised,"[2] just how the audit function should achieve this goal is uncertain and open to dispute. This chapter examines the options which are open to the legislative auditor in the interpretation of his mandate and briefly describes the responses of audit agencies in the United Kingdon, Australia and Canada. This will permit some later comparisons with recent developments in New Zealand.

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[1] Bruce L.R. Smith, "Accountability and Independence in the Contract State," in Bruce L.R. Smith and D.C. Hague (eds.) *The Dilemma of Accountability in Modern Government* (London: Macmillan, 1971), p. 42.

[2] Ross A. Denham, "The Canadian Auditors General - What is Their Role?" *Canadian Public Administration*, 17, 2 (1974), p. 260.

1. AUDITING THEORY

Little attention has been paid by political scientists to the role of the legislative auditor in the political system,[1] so the amount of theory building has been small. Scholars have been content to rest, in the main, with description. Indeed, so little attention has been paid to this aspect of the governmental process, that most of the initial development of the theory has taken place in the offices of the auditors themselves.[2]

Any discussion of auditing theory must distinguish between that which describes possible objectives for the audit agency and that which relates varying types of audit services which may be employed. While the object here is to give an account of the latter, the former should be briefly mentioned. Apart from the general objective mentioned in the introduction to this chapter, Denham identifies three broad aims for the audit function. These are to

> provide credence to the reports on the activities undertaken by the managers of the public's assets; to protect and support the managers themselves by assuring them that

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[1]With the notable exceptions of Denham, pp. 259-273, James Cutt, "Accountability and Efficiency," in Smith and Weller, pp. 219-235; Simon McInnes, "Improving Legislative Surveillance of Provincial Public Expenditures: the Performance of the Public Accounts Committees and Auditors General," *Canadian Public Administration*, 20, 1 (1977), pp. 36-86; Joseph Pois, "Trends in General Accounting Office Audits," in Bruce L.R. Smith, (ed.) *The New Political Economy: The Public Use of the Private Sector* (London: Macmillan, 1975), pp. 245-277; and Ira Sharkansky, "The Politics of Auditing," in Smith, pp. 278-318. The discussion in this chapter rests heavily on these authors.

[2]Modern theory has developed largely from a keynote address given by E.B. Staats, Comptroller General of the United States, to the 7th International Congress of Supreme Audit Institutions in Montreal in 1971. This was subsequently published by the General Accounting Office as *Standards for Audit of Government Organizations, Programs, Activities and Functions* and is discussed in Robert S. Freeman, "Government Auditing of Variable Scope," *International Journal of Government Auditing*, 2, 4 (1975), p. 8; and D.L. Scantlebury, "The Broadening Scope of Government Audit in the U.S.A.," *International Journal of Government Auditing*, 2, 3 (1975), p. 10. See also: Elmer B. Staats, "New Problems of Accountability for Federal Programs," in Smith, pp. 46-67; and Normanton (also an Auditor), pp. 102-123.

> an effective internal control system is operating; and to promote efficient and effective activities by means of constructively reporting on waste, extravagance, unsound projects and complicated policies. [1]

It is in the context of the third objective that the legislative auditor is most often viewed and about which most of the theory has been generated. Despite the academic neglect of the audit function three classifications of services can be determined. These are financial auditing, efficiency auditing and effectiveness auditing. The argument begins when one attempts to determine the 'true role' of the Auditor-General within these classifications. It has been noted that the office of the Auditor-General is going through a period of role expansion and it is through this "hierarchy of increasing sophistication and potential usefulness"[2] that the Auditor-General must move. Since each of the three types of audit is an advance on the one which precedes it, and since the influence of the Auditor-General increases as he progresses through the hierarchy, then there will be increased conflict with other actors who see their own influence being weakened or altered in some way.

Financial Auditing [3]

The traditional function of the legislative auditor has been the audit of the accounts of government to ensure that monies have been spent as Parliament intended. Since it has the Estimates and the parliamentary appropriations as its starting point it has tended towards measuring expenditure on inputs (such as salaries) rather than on outputs. The concern is foremost with legality and regularity.

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[1] Denham, p. 261.

[2] Cutt, p. 220.

[3] The term 'financial audit' is used in this study for the type of audit known variously as: fiscal audit, fiduciary audit, compliance audit, traditional audit and regularity audit.

The size of government has meant a volume of transactions too large to allow the meaningful examination of every one so there has been an increasing emphasis on testing the ability of systems to account for and control expenditure. Thus, "the question is likely to be defined in terms of accounting conventions and reporting procedures which demonstrate the propriety and legitimacy of expenditures within the activity or programme."[1] At this level the auditor's tasks include "verifying financial reports ... (and) approving the accounting procedures used by administrative units, identifying expenditures that exceed or lie outside of statutory authorisations,"[2] maintaining authority, so that only those departments and officers who are authorised to spend do so, and allocating responsibility for illegal expenditure.[3]

In addition, Chubb asserts that the Auditor-General was encouraged from the outset "to consider himself not merely a parliamentary auditor, but the source of information for Parliament."[4] Thus the financial audit includes not only the verification of government spending for Parliament but its interpretation and explanation for that body as well.

All this generally occurs at the end of the budget cycle which is one reason why the auditor has come to be seen as a distant political actor and is frequently overlooked. More significantly, this particular notion of the auditor is regarded by many as his 'true role' since this was specifically the function envisaged for the

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[1]Cutt, p. 220.

[2]Sharkansky, p. 284.

[3]Basil Chubb, *The Control of Public Expenditure* (London: Oxford University Press, 1952), pp. 52-61.

[4]Ibid., p. 61.

office in the British originating statute[1] and because the passage of time has ingrained habits. Undoubtedly for others this is also because the next step up the hierarchy considerably enhances their powers and increases their ability to criticise and embarrass other power wielders.

Efficiency Auditing [2]

Recognition that "the bureaucracy must be subjected to efficiency audits, backed by the highest authority and by explicit sanctions, and carried out by experts[3] has thrown increased burdens on the audit function. As its title suggests, the second classification is concerned with questions of efficiency and economy. Although Johnson has argued that these should be separate concerns for the auditor, the check for the optimum use of resources (efficiency) and the check for the avoidance of waste (economy) are considered to fall within this rubric.[5]

This type of audit has been described as

> the continuous systematic examination, analysis and appraisal of all factors concerned with the operation and administration of an organizational unit ... designed to be a constructive assessment of future alternatives available to an organization, i.e., alternatives being based on an analysis of stated objectives, past management activities and current problems. [6]

More narrowly, it may take the form of a review of a department's

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[1]The Exchequer and Audit Departments Act 1866.

[2]Known also as management auditing, operational auditing, performance auditing and systems auditing.

[3]Garrett,p. 233.

[4]Nevil Johnson, "Financial Accountability to Parliament," in Smith and Hague, p. 285.

[5]Denham, p. 262.

[6]RCAGA, *Report*, Appendix, Vol. 4, p. 165, quoted in J.R. Nethercote, "Efficient Allocation of Resources within the Public Service," in Cameron Hazelhurst and J.R. Nethercote, *Reforming Australian Government* (Canberra: The Royal Institute of Public Administration and the Australian National University Press, 1977), at p. 107.

"organizational structure, administrative procedures, management information systems, and the various control points and systems with the objective of identifying economic wastage, operating inefficiencies and inadequacies of system design in order to suggest improvements."[1] This definition of the efficiency audit is more restricted that the first for it requires only judgements about managerial controls over efficiency and not the assessment of how efficiently particular activities are being carried out.

The full efficiency audit can become a highly technical and specialised activity since "the crucial distinction between this level of accountability and the first is the inclusion of outcomes, and the juxtaposition in one way or another with costs."[2] The audit may allow the drawing of conclusions relevant to other programmes, perhaps even for those still in the formative steps, potentially making the auditor a relevant actor in the policy-making process and certainly increasing his opportunities for making evaluations of a possibly conflictual nature. For example, before even beginning an efficiency investigation, the auditor will have to select a small number of departmental programmes to audit (for to examine all would be an impossibility), he will probably have to decide what objectives a particular activity is designed to serve (since policy goals are usually unorganised and poorly articulated), and he will be required to select the appropriate indicators to measure goal accomplishments (since the profit motive has proved applicable to only a small part of government's activities). All these will be decisions which the agency under investigation may well consider its own prerogative with a corresponding resentment of the auditor's interference.

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[1]Denham, p. 262.

[2]Cutt, p. 221.

That the auditor should be permitted to make judgements of this nature has been a cause of concern to some. Smith has questioned "whether the skills, work atmosphere and mores of the audit agency would be conducive to creative performance of the task"[1] while Spann has noted that "the worst thing that could happen would be a sudden irruption into departmental affairs of newly recruited and zealous efficiency experts."[2]

Undoubtedly the provision of staff capable of carrying out these investigations would be a prerequisite of such an audit. The General Accounting Office of the United States, where efficiency audits are a common place, employs a professional staff of 3,600 of whom about 68 per cent are auditors. The remainder includes about 500 management experts, 100 actuaries, some 150 economists and social scientists and about 60 engineers and computer scientists.[3] In many smaller parliamentary systems, however, control over staffing establishments is likely to rest with the executive so attaining comparable skills may be possible only through the use of external consultants 'loaned' over a specified period.

There are many other criticisms of the efficiency audit which have been conveniently listed by Nethercote. "The idea ... runs counter to the well-entrenched administrative orthodoxy ... that efficiency is best promoted at the planning stage, that it is a function of adequate organization for the task involved and that subsequent remedial action is at best of marginal value ... Unless the reviewing body is large the actuarial risk of being caught out will be low ... It is not good administrative practice to have a

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[1]Smith, p. 44.

[2]RCAGA, *Report*, Appendix, Vol. 1, pp. 163 ff., quoted in Nethercote at p. 108.

[3]The details in this paragraph are derived from Nethercote, p. 112.

large body which is exclusively or largely engaged in commenting on the work of others. And while some flexibility will be introduced by removal of some existing controls, the need to ensure that papers are in order for the efficiency auditor will merely add other inflexibilities of a similar type."[1] These criticisms may be distinguished from those of Smith in that they refer to the idea of the efficiency audit rather than its provision by a specifically auditing agency. Quite probably, were they to come from the public service, they cound stand as a convenient rationalisation for the desire not to see any review of departmental efficiency and economy.

Effectiveness Auditing [2]

Arguments over the provision of efficiency audits pale in comparison to those which have occurred over the third classification of auditing services. "The objective of this audit is to review and report on the *effectiveness* of certain results of public resource management programmes in relation to the original objectives of the programme."[3] Programme or effectiveness auditing therefore seeks to measure the "degree of success an organization enjoys in doing whatever it is trying to do."[4] Since the achievement of objectives will only rarely be measureable in money terms the auditor will again be required to make a host of debatable evaluations. The task requires special skills which auditors conversant with the first two levels may not possess, so those criticisms of the efficiency audit will be easily applied to this third auditing classification. Almost certainly, however, the main difficulty with the effectiveness audit is its

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[1]Nethercote, pp. 108-109.

[2]Or programme or comprehensive auditing.

[3]Denham, p. 262.

[4]Cutt, p. 223.

definition. Cutt suggests that it is concerned with the implementation of policy - have the desired objectives been achieved; alternative programme designs by which objectives might be achieved; and possibly the redefinition of objectives - asking, are these objectives feasible or attainable?[1] Although this does not involve the consideration of the desireability of government policy it does come very near and the dividing line is very fine. It is this aspect of the audit agency's review which has created the most dissention.

The debate centres around the question of whether the legislature should carry out continuous and wide-ranging reviews of the results of government policies or whether this is a task for the executive itself. Since the audit function has always had close links with the legislature the provision of the effectiveness audit is held by some, who see the auditor criticising government policies, as "an undesirable interference in the accepted democratic process."[2] Were the auditor to question the desireability of policies, it is argued that this would be inconsistent with the functions ascribed to Parliament.

Then there is the further point that such criticism would also be inconsistent with the traditional role of the audit agency. Because of the fusion of the executive and legislative branches of government it is suggested that the Auditor-General as a parliamentary officer could not both report to Parliament on government spending and criticise government policy which had been authorized and legitimised by Parliament.[3] While this seems an unnecessarily rigid application of the constitutional principles involved and while it

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[1] Cutt, p. 224.

[2] Denham, p. 263.

[3] Cutt, p. 229.

fails to recognise the inability of Parliament to overrule a majority vote it does ensure that the Auditor-General stays apart from the political debate on policy.[1]

Which of these three classifications of auditing services one is prepared to allow the audit agency to undertake is a subjective matter on which there is little agreement. According to Sharkansky "the likelihood of the auditor goring a favoured ox has much to do with the authority that one prefers to assign to his office."[2] For governments and the bureaucracies that support them the arguments against the more penetrating and all-encompassing efficiency and effectiveness audits are of vital political importance. It is only natural that they should seek to constrain such a role with the less goring done, the better. In the literature that deals with the question, there is a marked trend towards the advocacy of extended audit services. It is suggested that the Auditor-General should undertake the effectiveness audit, treating as given , the policies and objectives which are laid down by government.(3) The auditors themselves of course have taken a leading role in this debate. Their experiences are analysed below.

2. SOME OVERSEAS COMPARISONS

Great Britain, Australia and Canada have been chosen for discussion because they illustrate some general trends in government auditing which have occurred in recent years. In particular, the constraining influence of the 'policy debate' has moulded the experience of these agencies, inhibiting the development of a comprehensive

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[1] Denham, p. 263.

[2] Sharkansky, p. 279.

auditing service. The experiences are relevant to a study of the audit function in New Zealand because of marked similarities in the machinery of government of the countries involved.

Great Britain

The functions of the Exchequer and Audit Department are currently going through a process of review with the possibility of some form of legislative change in the 1980 session.[1] Since the Eleventh Report from the Expenditure Committee of the House of Commons first suggested changes in the work of the E and AD in 1976, a number of groups have furthered the debate,[2] the most recent development of which has been a government green paper in March 1980.[3] In 1977 the C and AG initiated a management review of his department by Audit, Treasury and Civil Service Department Officers as well as two private sector consultants.

That the E and AD could pursue a more vigorous policy more in line with modern auditing practices has long been recognised.[4] The wording of the Exchequer and Audit Departments Act of 1866, has required a degree of accountability to Parliament no greater than that provided by the simple financial audit. The C and AG "therefore examines the regularity and propriety of transactions as well as the accounting procedures."[5] In addition, in response to a strong Public

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[1]See the Report of the Steering Committee, Management Review of the Exchequer and Audit Department, in Great Britain Parliament, *Second Special Report from the Committee of Public Accounts, Session 1978-1979* (HC 330), p. 21.

[2]Great Britain Parliament, *The First Report from the Select Committee on Procedure, Session 1977-1978* (HC 588) and the *Third Report from the Committee of Public Accounts, Session 1978-1979* (HC 232).

[3]See for a review, *Financial Times* (London), 12 March 1980, p. 10.

[4]Normanton, pp. 410-415; and Garrett, pp. 228-233.

[5]Great Britain Parliament, *Second Special Report from the Committee of Public Accounts, 1978-1979*, p. 23.

Accounts Committee interest in accountability for efficiency and economy,[1] he has reported on instances of waste and extravagance when these have been discovered. While these 'value for money' inquiries now involve about two-thirds of the staff effort of the department they do not amount to an efficiency audit in either of the two senses described above. Although making use of departmental financial management systems in these investigations, the E and AD does not "set out to evaluate the extent, reliability and effectiveness of all such systems which are intended to contribute to the efficient and effective discharge by departments of the full range of their responsibilities."[2] According to the C and AG, it has not

> been the practise for the E and AD to conduct organization and methods or manpower utilisation studies which in the United Kingdom have been regarded as the responsibility of the Executive. 3

Similarly, the Department has not chosen to undertake assessments of programme effectiveness since

> such an audit approach could take the form of an assessment of the relative merits of alternative policies ... In the U.K. such studies are regarded as the responsibility of the department concerned, which is, or should be, best equipped in expertise and resources to make them and whose Minister is best placed to inject the necessary policy guidance. 4

The use made of programme evaluation in Britain explains this hesitance. While, according to one recent study, "evaluation *per se* is practically unheard of in the British bureaucratic lexicon, ... the analysis that is conducted is designed to improve the policy capacity

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[1]Chubb, p. 61.

[2]Great Britain Parliament, *Second Special Report from the Committee of Public Accounts, 1978-1979*, p. 29.

[3]Great Britain Parliament, *Select Committee on Procedure, 1977-1978*, Vol. 1, p. cii.

[4]English contribution, "Developments in the Work of the Auditor-General," Conference of Commonwealth Auditors-General, London, 1978. *Draft Record of Proceedings*, Agenda Head 1, pp. 146-147.

of the political actors rather than amend management practices."[1] The PAR[2] reviews of the Cabinet Office's Central Policy Review Staff are therefore highly selective, specialised and secret. According to Garrett the notion of accountability as an aid to management has always been inconsistent with the traditional role of the E and AD.[3]

Australia

The present activities of the Auditor-General in Australia should be seen in the context of the inquiry of the RCAGA between June 1974 and December 1976. The Commission proposed that departmental efficiency could be improved if governments clearly defined their objectives and priorities, allocated resources on the basis of a three year rolling plan (called 'forward estimates') and gave greater autonomy to the departments to manage their day to day affairs.[4] Central to this package was the concept of 'accountable management', defined by Nethercote as a process "whereby managers would exercise greater day to day control over the resources for which they are responsible, and would be held directly accountable for the results."[5] The corollary to this kind of freedom was a more comprehensive auditing function, the responsibility for which was delegated to the Auditor-General. It was envisaged that a parliamentary select committee on administrative efficiency would be established to whom the Auditor-General would report and which would be able to demand a direct

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[1] J.M. Jordan and S.L. Sutherland, "Assessing the Results of Public Expenditure: Program Evaluation in the Canadian Federal Government," *Canadian Public Administration*, 22, 4 (1979), p. 596.

[2] See for a discussion: Hugh Heclo and Aaron Wildavsky, *The Private Government of Public Money: Community and Policy inside British Politics* (London: Macmillan, 1974), pp. 231-239.

[3] Garrett, p. 232.

[4] For an excellent summary of the Commission's proposals see Nethercote, pp. 101-104.

[5] Ibid., p. 106.

departmental response to its criticism.[1]

These recommendations were accepted by the Australian Government in December 1976 and a Working Party of Officials on Efficiency Audits was established to examine the questions more fully. On its recommendation an Efficiency Audit Division was created in the Auditor-General's Office, legislative change was initiated through the drafting of an amendment to the Audit Act 1901, and provision was made for the Joint Committee of Public Accounts and the Expenditure Committee to examine the reports.[2]

The broadened mandate of the Office has taken in the wider definition of an efficiency audit discussed previously. The Auditor-General has argued that his office's financial audit already takes departmental financial control systems into account[3] so the efficiency audit has been defined as evaluating

> whether an administrative entity has discharged its functions or implemented its programs with the least consumption of resources of people, funds and equipment. 4

The RCAGA also made a number of proposals in respect of the effectiveness audit, but it did not recommend that this should be carried out by the Auditor-General. Rather, reflecting the British solution, it urged that the responsibility for programme evaluation be placed at the very centre of the machinery of government, in the Department of Prime Minister and Cabinet. This placement appears to be something of which the present Auditor-General approves since he has commented that "its location anywhere else in the administration would deprive

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[1]See Self, p. 324.

[2]Australian Contribution, "Developments in the Work of the Auditor-General," Conference of Commonwealth Auditors-General, London, 1978. *Draft Record of Proceedings*, Agenda Head 1, p. 15.

[3]Ibid., p. 19.

[4]Ibid.

it of its essential political content and authority."[1]

Canada

Canadian experience is particularly relevant to a study of the New Zealand Audit Office because many of the developments pioneered in that country have been replicated in New Zealand. In 1962 the Royal Commission on Government Organization (Glassco Commission) was critical of the Canadian budgetary process and recommended greater departmental planning and identification of objectives, increased delegation of authority to the departments, the establishment of five year rolling expenditure plans on a programme basis and the development of criteria for evaluating and assessing performance.[2] The introduction of these elements of a planning, programming and budgeting system[3] created the need for procedures to measure and evaluate efficiency and effectiveness. Termed Operational Performance Measurement Systems (OPMS), these were gradually introduced into the federal government by the Treasury Board over a number of years.[4] This has had important consequences for the development of the auditing function.

Following his appointment as Auditor General in July 1973, James J. Macdonell undertook a major review of his office's responsibilities and *modus operandi* through the setting up of an 'Independent Review Committee on the Office of the Auditor General'. The Committee proposed that the Audit Office should undertake to provide a broad

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[1] Australian Contribution, "Developments in the Work of the Auditor-General," Conference of Commonwealth Auditors-General, London, 1978. *Draft Record of Proceedings*, Agenda Head 1, p. 28.

[2] M.M. Van Gelder, "Program Budgeting - A Status Report," in J.C. McMaster and G.R. Webb (eds.), *Australian Project Evaluation* (Sydney: Australia and New Zealand Book Company, 1978), pp. 30-31.

[3] For a general discussion and definition, see below p.

[4] See Jordan and Sutherland, pp. 580-590.

range of auditing services under the 'value for money' concept.[1] But this was to be a much broader definition than the 'waste and extravagance' variant of the financial audit in Great Britain. The Committee defined value for money as encompassing

> three inter-related components: whether the money is expended *economically* and *efficiently* and whether the programme on which it is expended is *effective* in meeting its objectives [2]

These recommendations were accepted by the government and given statutory recognition in the Auditor General Act 1977. The Act served to safeguard the Auditor-General's independence by making him a separate employer, distinct from the Public Service Commission, by enlarging his powers of access to information, by granting him the right to report to the Commons at any time, and by providing all this in a separate legislative enactment which distinguished his functions from the government's financial management system.[3] More importantly, however, it was provided that the Auditor-General should report on cases where

> money has been expended without due regard to economy or efficiency; or satisfactory procedures have not been established to measure and report the effectiveness of programmes, where such procedures could appropriately and reasonably be implemented. [4]

Already the Auditor-General had construed the wording of the previous Act to enable him to carry out an efficiency audit of the financial management and control systems type. A Financial Management and Control Study (FMCS), under the direction of a leading Canadian chartered accountant and with a large private sector staff input,

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[1]Herbert R. Balls, "The Watchdog of Parliament: the Centenary of the Legislative Audit," *Canadian Public Administration*, 21, 4 (1978), p. 608.

[2]*Report of the Independent Review Committee on the Office of the Auditor General, 1975*, p. 33, quoted in Balls, p. 608.

[3]James J. Macdonnell, "Auditing the Government of Canada: A Centennial Conspectus," *CA magazine*, 111, 12 (1978), pp. 25-26.

[4]Canada, Auditor General Act 1977, s. 7 (2) d and e.

was carried out[1] and reported by the Auditor-General in his 1975 and 1976 parliamentary reports. Macdonnell concluded that "the present state of the financial management and control systems of the departments and agencies ... is significantly below acceptable standards of quality and effectiveness."[2] To rectify the situation it was proposed that there should be appointed a chief financial officer of the government - a Comptroller General of Canada "with deputy Minister status and a direct reporting relationship to the President of the Treasury Board."[3] It was envisaged that his responsibilities would include

> the design, development, implementation and monitoring of adequate systems and procedures to ensure that the form of the Estimates provides a sound basis for the Government's budgetary control system, that public moneys and assets are under effective custody and control at all times, that accounting procedures and financial reports throughout government (including the Public Accounts) conform to acceptable accounting principles and standards, that expenditures of public moneys are made with due regard for economy and efficiency, and that satisfactory procedures measure the effectiveness of programs where they could reasonably be expected to apply. [4]

To achieve these multifarious goals two branches were separated from the Treasury Board's Secretariat, one to be responsible for financial management in the public service and the other for the development of efficiency and effectiveness measures. The officer was appointed

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[1]R.B. Dale-Harris headed the investigation. For two insiders' accounts see Robert B. Dale-Harris, "Financial Controls in the Government of Canada," *CA magazine*, 110, 4 (1977), pp. 28-30; and Patrick Lafferty, "Perspectives on Financial Management and Control Systems in the Government of Canada," *International Journal of Government Auditing*, 3, 4 (1976), pp. 7-10.

[2]*Report of the Auditor-General for the Fiscal Year Ended March 31, 1975*, p. 4, quoted in Balls, p. 610.

[3]Canadian Contribution, "Developments in the Work of the Auditor-General," Conference of Commonwealth Auditors-General, London 1978. *Draft Record of Proceedings*, Agenda Head 1, p. 43.

[4]Ibid.

in April 1978[1] shortly after the setting up of a Royal Commission on Financial Management and Accountability to further investigate the Auditor-General's claims.[2]

The development of the comprehensive auditing package has reflected these developments. A Study of Procedures in Cost Effectiveness (SPICE)[3] was initiated in 1976 to test procedures and techniques for '3E' auditing (efficiency, economy and effectiveness) and proposals were made as to how future audits might be carried out. This has resulted in the adoption of a 'systems and processes' efficiency audit[4] but also an effectiveness audit. Recognizing the government's responsibilities in the matter, through its use of OPMS, this has been confined to an assessment of "the adequacy of management systems that evaluate goal achievement."[5] Although an extension on British and Australian experience, the policy dimension has again prevented a wide interpretation of this audit. As the Auditor General has commented

> The Audit Office does not question the appropriateness of program goals or the values underlying them, nor is it part of our mandate to measure effectiveness as such. 6

To adequately cope with its responsibilities the Audit Office has employed a cyclical approach in applying its comprehensive audit

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[1]Balls, p. 615. The appointee was H.G. Rogers, previously an executive in various private sector companies. For his view see: Harry Rogers, "Management Control in the Public Service," *Optimum*, 9, 3 (1978), pp. 14-27.

[2]The Commission reported in March 1979 and its findings are discussed in a symposium in *Canadian Public Administration*, 22, 4 (1979), p. 511-580.

[3]See Ottawa Report, *CA magazine*, 110, 8 (1977), p. 14 and p. 112; 1 (1979), pp. 24-26.

[4]Since 1976 three special investigations have been undertaken to examine public service controls over charging for accommodation procedures, contracting procedures, and computer and information systems use.

[5]Ottawa Report, 1977, p. 14.

[6]Macdonnell, p. 27.

to an organization approximately every four years, while the acronym FRAME has been adopted to symbolise the audits five interrelated components.[1]

SUMMARY

Although this discussion has been brief a number of conclusions relevant to the behaviour of the New Zealand auditing agency can be drawn. There is clear evidence that the audit function can no longer be limited to the mere certification of expenditure. Since the beginning of the 1970s there has been a noticeable trend towards the provision of increased auditing services and a consequent increase in the degree of accountability required of governments. Although initially related to the initiative and discretion of individual Auditors-General, more recently specific recognition has been granted by some legislatures.

In each of the three countries discussed this has taken place amidst wide public debate and discussion on what the nature of the audit role should be while in Australia and Canada there has also been a more general discussion of the problems of accountability and efficiency. Interestingly, in each of these countries the audit function's independence from government is symbolised in separate audit legislation. But probably the most important comparison one could draw is the very marked hesitance by the parliamentary auditors to take on aspects of the evaluation exercise considered to be in executive territory. Whether or not an Audtior-General is prepared to extend his audit to include evaluations of programme effectiveness

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[1]This involves studies of financial controls, reporting to Parliament, attesting legality in expenditure, examining management controls for the 3Es, and electronic data processing auditing. See Macdonnell, p. 28.

would appear to depend largely on norms and beliefs about the ascendency of the executive in the parliamentary system. Where these are strong, as at Westminster, the role of the audit agency has been less developed than in Ottawa or Canberra.

All this raises interesting questions about the position of the Auditor-General in New Zealand. How far, it might be asked, has the C and AG progressed through the hierarchy and what classification of auditing services does he provide; how independent of government is he and how is that independence portrayed; what procedures can he employ to report and publicise his findings? Such questions, in turn, should lead to more important ones for which there may not be undisputed answers. How appropriate, for example, is the role of the Auditor-General and what are the consequences for the accountability and efficiency of the public sector?

As the audit agency takes on an expanded role its degree of conflict with other actors, particularly in the bureaucracy, will almost certainly increase. When considering the location of an efficiency audit in the New Zealand Public Service in 1976 the Task Force on Economic and Social Planning, which was composed almost entirely of civil servants, shied away from placing the responsibility with the Auditor-General. Efficiency, it argued,

> is far more than saving costs and its encouragement should not be centred on financial accounting. The effectiveness of a department involves the thoroughness with which policy choices are examined and levels of achievement as well as the cost of the implementation. [1]

By this time, however, the Audit Office was already moving towards increasing the range of its auditing services. The extent of this development is analysed in the following chapter.

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[1] Holmes, p. 258.

CHAPTER III

THE AUDIT APPROACH : BREADTH AND DEPTH

> Before he came to Audit he was heard to say in Treasury that he wanted to make the Audit Office the GAO of New Zealand.
>
> - Deputy C and AG.
>
> I wanted to give it some teeth.
>
> - C and AG.

It has been suggested that the degree of accountability required of government can be related to the classification of auditing services employed. This chapter examines whether this is the case in New Zealand by looking at the breadth and depth of the audit approach. The breadth, or scope, of the government audit may be considered a measure of the C and AG's ability to audit across the broad range of activities financed in full or in part by public funds. The extent to which he has become involved in efficiency and effectiveness audits is regarded as the depth of the audit function. Finally, an explanation is offered for the present range of auditing services provided by the Audit Office in terms of the recent history of public sector financial management.

1. THE AUDIT BREADTH

How broadly the Auditor-General has been able to apply his audit and exert his influence is one factor which must be considered when assessing his effectiveness. As he is the auditor of both central and local government, including the statutory corporations and boards, nearly all of the public sector lies within his domain. Thus the Public Finance Act declares that "the Audit Office shall be the auditor of all public money and public stores; and ... all money and stores of a local authority."[1]

Consequently Audit has nearly 1,900 clients including the thirty-seven departments of state, twenty-nine hospital and thirty electric power boards, over five hundred minor domain, scenic and miscellaneous boards and some four hundred and thirty territorial or ad hoc local authorities. For all this, however, there are still some organizations which receive public money but which are beyond the reach of the Audit Office. These are Air New Zealand, the Reserve Bank, the Bank of New Zealand and Waikato Carbonisation Limited.

Although the number is small, the principle is large and the Air New Zealand case, in particular, has clearly worried the Auditor-General. Following the merger of Air New Zealand and the National Airways Corporation in December 1977 the Auditor-General complained that "there has ... been some loss of Parliamentary control over the Government-operated domestic airline."[2] This case clearly shows the ability of the government to limit the Auditor-General's jurisdiction, suggesting that it will be a government decision as to whether or not a government agency will be subject to the C and AG's investigation. This is further reinforced by section 25 (1)(b) of the Public Fiance Act which requires an Order-in-Council for the C and AG's audit to be extended to any of the above organizations.

That there are gaps in the audit has also been of some concern to the Public Expenditure Committee. In 1971 the PEC was critical of the low level of qualifications required for the position of auditor

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[1]Public Finance Act, 1977, s.25 (1).

[2]*A.J.H.R.* 1977, B 1 (Pt 111), p. 19.

of the Bank of New Zealand and the Reserve Bank and suggested that this function should be turned over to the Audit Office. Its formal recommendations, however, were telling:

> that the law be amended to enable the Audit Office, *if Government so desires*, to audit the Bank of New Zealand and the Reserve Bank of New Zealand. 1

That this was not the government's wish was evidenced in 1979 when a Private Member's Bill from a member of the PEC attempted to give effect to this recommendation. The measure was defeated.[2]

The importance of these matters is that they illustrate the conflicting objectives of the executive and legislative branches of government which must be resolved within the context of one being responsible to the other. While the Auditor-General, as the champion of Parliament, would like to see greater accountability through broadening the scope of his audit, government has refused to let this happen.

2. THE AUDIT DEPTH

By contrast the Auditor-General has had some success in recent years in having the depth of his audit increased. Since 1975 the Office has moved rapidly towards the provision of all three of the auditing services outlined in Chapter Two. In particular, Canadian experience has been closely followed with its emphasis on the development of a comprehensive approach through '3E' auditing.

The Financial Audit

While the C and AG has extended his audit to include these services the primary role of his Office has remained the financial

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[1] *A.J.H.R.* 1971, I 12, p. 36.

[2] *N.Z.P.D.*, Vol. 356, pp. 2395-2409.

or opinion audit of its public sector clients. It is through the financial audit that the C and AG carries out his traditional function of ensuring that expenditure has been used for the purposes intended by Parliament. This is guaranteed by the all-embracing wording of the Public Finance Act which requires the Auditor-General to express an opinion on the financial statements presented by both central and local government and which stipulates that he report annually on the state of the Public Accounts. But the prime objective of the financial audit is to ensure that "the accounts and statements fairly disclose the results of financial operations for the year."[1] The task is one which must be carried out annually and it is time-consuming especially at the local government level. Ensuring that an organization's financial dealings have been conducted consistent with the appropriate legislation is only of secondary importance, despite the theoretical concern at this level for the legality and legitimacy of expenditure. Probably the best explanation for this lies in the rapid increase in the size of government's operations which has precluded the analysis of discrete transactions and caused greater emphasis to be placed on the management of public funds than on the legality of their use. Financial disclosure, as the audit's central objective, thus reflects the adoption of analytical auditing techniques introduced to cope with this development. Although legality is only a secondary concern the Audit Office does report breaches of the law incurred by its clients.

In addition, Audit has a statutory authority to examine the accounting procedures of the departments and local authorities to ensure that they facilitate the "assessment, collection and proper

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[1]New Zealand Contribution, "Audit of Public Corporations and Other Statutory Boards," Conference of Commonwealth Auditors-General, London 1978. *Draft Record of Proceedings*. Agenda Head 2, p. 64.

allocation of revenue."[1] This is interpreted in a positive sense so that when weaknesses in these systems do come to light assistance is offered. Clearly, the more Audit can strengthen the internal control of its clients the less it will be required to do, leaving time and resources for the pursuit of other objectives. Thus, "the aim is to complete financial audits in the minimum possible time consistent with maintaining auditing standards, and to free resources for these review tasks."[2]

In central government, in particular, Audit has struggled to promote and upgrade internal audit groups within the departments.[3] It considers that s. 25 of the Public Finance Act allows it to rely on the work of these groups where they are independent of management, "soundly based and professionally acceptable."[4] As it was pointed out in Chapter One, however, this has not always been the case. Nevertheless, if the Office increases the number of efficiency and effectiveness reviews it undertakes, the promotion of internal audit will become increasingly important. As the C and AG commented in 1979:

> our concern is that, unless ultimately we can rely on internal audit of a professional standard undertaken by adequately trained staff working to an approved programme, we will be inhibited in fulfilling our responsibilities ... in the manner we consider to be in accordance with modern concepts of auditing. 5

At the local level the Audit Office has been actively involved

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[1]Public Finance Act, 1977, s. 25 (2)(b)(ii).

[2]David Hutton, "Auditing in the Public Sector," *The Accountants' Journal*, 58 (1979), p. 176.

[3]*A.J.H.R.* 1980, B 1 (Pt 111), pp. 27-28.

[4]New Zealand Contribution, "Review of Latest Developments in Internal Audit," Conference of Australian, New Zealand and Fiji Auditors-General, Perth 1979. *Draft Record of Proceedings*. Agenda Head 5, p. 34.

[5]Ibid., p. 29.

in promoting improvements in the format of local authority accounts. Audit spends nearly 60 per cent of its time on these accounts, which represent only about 18 per cent of total public expenditure, and part of the explanation for this lies in accounts which are usually "too voluminous, too complicated and produced too late ..."[1] Although Audit can only assist and advise in these matters - the responsibility for accounts design rests with the county and town clerks' institutes[2] - it has enjoyed some success. The format which has been adopted not only improves the financial management of local authorities, it also provides greater accountability by requiring estimates to be prepared (to permit a comparison of actual and planned performance) and the publication of an audited financial statement.[3]

The mechanics of the audit are straightforward.[4] For some time[5] the Audit Office has employed a 'systems based' technique which involves assessing "the adequacy of systems to provide reliable information and then making tests to ensure that the system has been followed for the year."[6] The results of these compliance tests indicate the extent to which further testing of a substantive nature is necessary to determine the validity, legality and prudence of the procedures used.[7] At any time in the process the auditor might

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[1]A.C. Shailes, "Financial Management, Accounting and Reporting in Municipalities," *New Zealand Local Government*, 15, 7 (1979), p. 29.

[2]*A.J.H.R.* 1976, B 1 (Pt 111), p. 16.

[3]A.C. Shailes, "Financial Management, Accounting and Reporting in Municipalities," p. 31; and *A.J.H.R.* 1979, B 1 (Pt 111), p. 20.

[4]For a discussion of the accounting principles involved in Audit procedures, see Hutton, p. 176.

[5]Auditing techniques based on systems evaluation, test checking and in-depth auditing of selected topics were introduced in the early 1960s.

[6]S.T. Keene, "Auditing and Financial Controls," Address to the New Zealand Society of Accountants, Wellington Branch, November 1979, p. 4 (typescript).

[7]New Zealand Contribution, "application of Modern Auditing Techniques and Practices," Australian Conference, *Draft Record of Proceedings*, Agenda Head 3, p. 2.

discover irregularities and these are noted in the office inspection report and a response is sought from the agency concerned. This could involve such peccadillos as stores not able to be located and vouchers not signed by the appropriate officer or coded incorrectly, or such major discrepancies as expenditure not supported by vouchers and illegal transactions. If there are discrepancies then Audit will consult with the appropriate departmental officer. In many cases this will be the Finance Director but other officers may be consulted, including the permanent head or his deputy. In the case of local authorities the accountant is always advised.

Generally, notifying the department concerned is sufficient to right any wrongs, but on those occasions when it is not, or when the ramifications of a matter might interest a wider public,[1] then the matter is usually commented on in the Auditor-General's report. In this situation the Audit Office advises the offending agency of its intention and sends them an advance copy of the report article. For,

> it is ... good tactics and a matter of common courtesy to give the client organization concerned an opportunity to consider the matter to be raised in the audit report and to make relevant comments as to the facts. 2

Indeed, the Office is prepared to alter its position where a department decides to adopt a stance more to Audit's liking.[3]

The reports are intentionally constructive. Said the C and AG:

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[1]In an interview with the author the Auditor-General observed that the censuring of one department served to show all the others that the rules should be followed. Reports are used "for the purpose of showing a principle that is wrong." (13 December 1979.)

[2]A.C. Shailes, "The Auditor's Responsibility to Parliament," Paper delivered to the Australian Society of Accountants, National Government Accounting Convention, Canberra, 22 February 1980, p. 11. (typescript.)

[3]Clearly there are very good tactical reasons for this; letting departments feel the discomfort of the Auditor-General's censure before it is published helps to attain compliance.

> I would much rather report in positive terms with a view to initiating an improvement for the future, and as far as possible I see that my reports to Parliament are prepared with that in mind. 1

To this end the Auditor-General comments frequently to Parliament on the procedures adopted by some departments. In 1979, for example, he was critical of a lack of financial accountability in the education system and the absence of procedures for the safe transmission of welfare benefits and salaries.[2] In other years he has commented unfavourably on reporting procedures in the Ministry of Works, the form of the accounts adopted by the Forest Service[3] and the number of customs inspections falling into arrears.[4]

Where there are no serious irregularities departmental accounts and their accounting systems are given Audit's official blessing.[5] Of course, a great deal of this sort of examination is carried out without the need for adverse comment in the inspection report and even less is mentioned in the annual report. As McRobie has quite rightly observed, the C and AG's report "is no more than the tip of the iceberg; by far the greater part of the work of his Office is never madepublic."[6] But "where there has been a material breach of an established accounting principle in the preparation of the statements, or a failure to disclose material transactions or financial effects of a particular policy,"[7] Audit will qualify its client's

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[1] A.C. Shailes, "The Auditor's Responsibility to Parliament," p. 11.

[2] *A.J.H.R.* 1979, B 1 (Pt 111), pp. 12, 14 and 19.

[3] *A.J.H.R.* 1978, B 1 (Pt 111), pp. 8 and 13.

[4] *A.J.H.R.* 1975, B 1 (Pt 111), p. 54.

[5] See, for a discussion of the nature of the short form audit report, *A.J.H.R.* 1978, B 1 (Pt 111), p. 29.

[6] Alan McRobie, "Parliamentary Control of Public Expenditure," in Levine, p. 124.

[7] *A.J.H.R.* 1978, B 1 (Pt 111), p. 30.

report. In fact only about 3 per cent of the accounts are "tagged"[1] and most of these are minor boards, councils and authorities.

The Public Accounts

Perhaps the most important of the Auditor-General's duties, at least as far as Parliament is concerned, is his audit of the Public Accounts. To fulfill his explanatory and informative role the Auditor-General has for many years seen his duty as informing Parliament of government actions which weaken parliamentary control of expenditure. In 1960, for example, he objected to a decision by Government to alter taxation rates without the consent of Parliament. Although he agreed that the empowering legislation was sufficiently broad to permit this action, the Auditor-General felt that the principle demanded Parliament's attention and questioned whether the legislation should be repealed.[2] On another occasion the C and AG tagged the Public Accounts when the government withheld expenditure in an imprest account so as not to exceed the limit imposed on unauthorised expenditure,[3] while in 1979 he noted that government use of loan money to meet a shortfall in the consolidated account was a "significant departure ... from previous practice."[4]

With regard to the second example, government could alternatively have allowed the overexpenditure and brought down validating legislation later in the session. Although this means that parliamentary discussion of expenditure occurs some time after it has actually

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[1]Reports are qualified for any number of reasons, including failure to live within income, borrowing and expenditure without lawful authority, missing and incomplete records, and monies not separately banked or invested.

[2]*A.J.H.R.* 1960, B 1 (Pt 11), pp. 6-7.

[3]*A.J.H.R.* 1971, B 1 (Pt 1), p. 57.

[4]*A.J.H.R.* 1979, B 1 (Pt 11), p. 88. See also 1980, B 1 (Pt 11), p.27.

been spent, it is accepted by the Auditor-General as "a practice of long standing and apparently acceptable to successive Parliaments."[1] He has nevertheless urged "that this be avoided as far as possible" and has always commented when such legislation is required.[2]

While overexpenditure, in particular, seems to attract the attention of Parliament[3] the Auditor-General has been equally concerned with over and underexpenditure since both represent a deviation from the Estimates. Annually he lists those votes where this has occurred and explains why to encourage departments to be faithful to their Estimates and to draw them realistically.[4] So, in 1976-77, he noted that underexpenditure in the Defence department had resulted from reduced flying hours while Vote Education had been exceeded because of cost escalation in the building programme.[5] Together, votes which are overspent and expenditure on services not provided for in the Estimates, make up any unauthorised expenditure and this must not exceed certain limits.[6] When it does, as in 1975 and 1976, the Auditor-General has been quick to point out the implications for parliamentary control.[7]

At the same time Audit has sought to enhance Parliament's ability to scrutinize expenditure through improving the quality of the information available to it and the legislation which governs its procedures. Audit has urged the revision of the format of the

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[1]Correspondence quoted in McRobie, "Parliamentary Control of Public Expenditure," p. 126.

[2]*A.J.H.R.* 1979, B 1 (Pt 11), pp. 108-109. See also 1980, B 1 (Pt 111), p. 31.

[3]*N.Z.P.D.*, Vol. 374, pp. 2602-2604; *A.J.H.R.* 1976, I 12 a, pp. 3-10.

[4]McRobie, "Parliamentary Control of Public Expenditure," p. 125.

[5]*A.J.H.R.* 1977, B 1 (Pt 11), pp. 101-105.

[6]See above p. 5

[7]McRobie, "Parliamentary Control of Public Expenditure," p. 125; and *A.J.H.R.* 1976, B 1 (Pt 11), p. 33.

Estimates and the Public Accounts[1] and has been closely involved with the redrafting of the Public Finance Act. The need for this exercise became apparent following the review of a Treasury committee in 1973 and Audit has taken part in this work through approaches from Treasury and informal discussions. Consequently a number of matters which had earlier been criticised in the Auditor-General's reports were tidied up or eliminated by the Act.

In particular the Auditor-General had expressed concern at the growing number of statutes permanently appropriating monies, which had "the effect of removing expenditure from the annual review and appropriation of parliament."[2] In the 1975 Estimates this amounted to nearly 19 per cent of total government expenditure. While he had considered this justified in respect of fixed commitments, the C and AG singled out some exceptions such as the National Roads Fund and investments in the public corporations from the National Development Loans Account.[3] In the 1977 Act many of the permanent appropriations were repealed, while transfers from the loans account were made subject to an annual parliamentary appropriation. By 1979-80 permanent appropriations amounted to about 11 per cent of main estimates expenditures.[4] In addition, the Act redefined the term 'government agency' to permit a greater level of Treasury control over the semi-independent government bodies

The audit of the Public Accounts and the interpretation of expenditure for Parliament, while only a small part of the C and AG's functions, is nevertheless a very important and desirable one. The

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[1]See below, p. 80ff

[2]*A.J.H.R.* 1976, B 1 (Pt 11), p. 42.

[3]Ibid.

[4]David A. Preston, *Government Accounting in New Zealand* (Wellington: Government Printer, 1980), p. 35.

audit symbolises the on-going struggle with government because the accounts represent, in one document, the total governmental operation. Consequently, it might be expected that Audit comment on these accounts would attract the most attention, particularly in the media. Unfortunately, both for Parliament and for the Auditor-General, this report has not received the attention it deserves. The reasons for this are discussed more fully in Chapter Five.

Since 1970 the Auditor-General's report has been split up into two volumes, the first dealing with the Public Accounts, the second containing reports of more detailed investigations right across the public sector. In fact more attention has been focused on this report for it has contained the 'horror stories'[1] which are the reports of the Auditor-General's 'value for money' investigations.

EFFICIENCY AND EFFECTIVENESS

Beyond the mere financial audit the Audit Office has, for some time, defined its role as involving the search for waste and extravagance. It has employed those aspects of efficiency auditing necessary "to ensure that the financial outlay is represented by value received."[2] It has not always been possible to separate the financial audit from its 'value for money' aspects because the two have been conducted concurrently. As in Britain, however, this has not amounted to an efficiency audit in either of the two senses defined in Chapter Two.

In line with the worldwide trend to increased audit services noted in the previous chapter the Audit Office has also expanded its

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[1] A.C. Shailes, "The Auditor's Responsibility to Parliament," p. 13.
[2] *A.J.H.R.* 1974, B 1 (Pt 111), p. 84.

mandate. Initially, in 1974, experimental audits were carried out in two local bodies to determine staffing requirements and the method of approach,[1] but staffing constraints inhibited these initiatives in the following year.[2] Moreover, there was no statutory provision for an extended audit role at this time but with the rewrite of the Public Finance Act this situation was remedied. The Act now provides that:

> The Audit Office may, whenever it thinks fit, make such examination as it considers necessary in order to ascertain whether, in its opinion, resources ... have been applied effectively and efficiently in a manner that is consistent with the applicable policy of the Government, agency or local authority, as the case may be. 3

The interpretation of this mandate should be seen in the light of the establishment of the SSC's management audit team. In his 1976 report to Parliament the Auditor-General commented that since central government was now well served by these consultants the role of his Office would be "one of a watching brief on behalf of Parliament, reporting on the extent to whic/ operational audit concepts have been applied, and the actions taken on the recommendations ... made as a result ..."[4] Since "there was a greater need in local government"[5] and because the SSC's activities did not extend to these bodies, Audit's most comprehensive efficiency reviews were planned for this area.

As a result of this approach the focus of the extended audit has not been on the overall efficiency of departments or on whether programmes are achieving targets in an efficient and economical way. Rather the emphasis has been on determining the control points of the

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[1] *A.J.H.R.* 1974, B 1 (Pt 111), p. 52.

[2] *A.J.H.R.* 1975, B 1 (Pt 111), p. 84.

[3] Public Finance Act 1977, s. 25 (3).

[4] *A.J.H.R.* 1976, B 1 (pt 111), p. 28.

[5] *A.J.H.R.* 1980, B 1 (Pt 111), p. 9.

organization under review to see whether they promote efficiency and economy. Thus, "the primary objective of such an audit (has been) to reveal defects or irregularities in any of the elements examined, and to indicate possible improvements."[1] Although the C and AG has for a long time audited many governemnt departments, statutory bodies, corporations and local authorities in the search for inefficiencies (and these have been reported), the new clause in the Act has been interpreted in the more positive sense of encouraging departments to become more efficient. Similarly, the effectiveness reviews have not been structured to include appraisals of whether desired objectives are being achieved by programmes or whether government policies are correct for their situations. Rather, they examine whether the necessary elements exist in the structure of the organization to allow the policies to be achieved and whether programmes have been sufficiently and correctly evaluated.

It should not be inferred from the above that the efficiency and effectiveness reviews are necessarily distinct activities. Indeed, as in Canada, the Audit Office has stressed the *comprehensive* nature of its approach. Thus it has been stated that

> departments to which this type of review will be applied will be subjected, by means of a co-ordinated programme, to the full three-phase approach of the attest audit, control evaluation, and the efficiency and effectiveness audit. [2]

So far this extended auditing approach (termed 'operational reviews' by the C and AG) has taken two forms. Firstly, it has been applied to a number of territorial local authorities,[3] the first of which was carried out for the Nelson City Council in 1978. This involved such

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[1]New Zealand Contribution, "Application of Modern Auditing Techniques and Practices," Australian Conference, *Draft Record of Proceedings*, Agenda Head 3, p. 2.

[2]*A.J.H.R.* 1980, B 1 (Pt 111), p. 10.

[3]Ibid., p. 23.

considerations as whether the organization of the Council was adequate in relation to its duties, the validity of its cost-estimating procedures, the effectiveness of the budget preparation process and the ability of management to control operations.[1] The application of similar techniqies to central government has been dependent on the experience gained with the result that a pilot project was initiated in the Police Department in 1980. It is thus too early to make judgements as to its form or effects although the Auditor-General has indicated that it would "assess over one complete operational cycle all the management and accounting controls covering revenue, expenditure, and stores."[2] If, however, future evaluations are based on Canadian experience then the effectiveness phase will undoubtedly include such questions as: the extent to which programmes are evaluable and the amount of evaluation undertaken; the validity of the indicators chosen and their relevance to the programme, the degree of qualification of the evaluation's conclusions; the extent of their communication to the appropriate level, and their ability to be implemented within existing budgetary constraints.[3]

Secondly, and again as in Canada, a number of surveys have been undertaken which have had 'across-the-board' significance. Examples of these include the review of financial management in administrative government departments, the examination of computer utilization in the public sector,[4] and a review of financial management in harbour boards.[5]

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[1]*Nelson Evening Mail*, 16 and 18 November 1978.

[3]Canada, *100th Annual Report of the Auditor General of Canada to the House of Commons, 1978*. Ottawa, Minister of Supply and Services, 1978, p. 62.

[2]*A.J.H.R.* 1980, B 1 (Pt 111), p. 10.

[4]*A.J.H.R.* 1979, B 1 (Pt 111), p. 8.

[5]*A.J.H.R.* 1980, B 1 (Pt 111), pp. 23-24.

Why the Audit Office has not followed the GAO or even its Australian counterpart into a fully fledged efficiency audit is attributable to a number of factors. One is that the necessary theoretical development of the concepts of efficiency and effectiveness has not yet taken place. There are many definitions of efficiency and it is doubtful whether Audit could measure programme results without having to make bjective and perhaps political judgements which might compromise their independence. It is possible too that by progressing too quickly into efficiency audits, the standing enjoyed by the C and AG might be diminished. Clearly this new role could be the cause of discomfort and embarrassment amongst departments and any friction could make the financial audit more difficult. As the Deputy C and AG rather eloquently observed: "Failure to maintain independence or to use our considerable powers without restraint could lead to the death knell of our place as a cornerstone of democracy ..."[1] More significantly, Audit's staff resources do not permit it to make authoritative judgements about the plethora of tasks performed by both central and local government and this is something of which the C and AG is aware.[2] The expertise of the Office lies in the fields of accounting design and financial management, not in such diverse areas as forestry, farming, house construction, or the supply of electrical power.[3] Determinations as to the efficiency and effectiveness of programmes requires expertise in personnel and office systems management as well as technical skills in these areas. Unlike the GAO these are skills which Audit does not possess.[4]

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[1]J.T. Chapman, "Future Direction of the Audit Office," August 1979, p. 3 (typescript).

[2]See, for example, Audit's handling of the Hikurangi Swamp Scheme, *A.J.H.R.* 1976, B 1 (Pt 111), p. 28.

[3]See Graham Bush, "Just What Should Local Government be Doing," *New Zealand Local Government*, 15, 7 (1979), pp. 19-23.

[4]Although it admits the possibility if "multi-disciplinary teams

But perhaps the most important constraint has been the desire not to be seen as questioning government policy which effectiveness auditing, in particular, could involve. As an officer of parliament in the broad sense[1] the Auditor-General appears to have adopted the convention that such judgements are a matter for the executive although there are also sound and practical reasons for such a stance. By not being identified as either for or against a particular policy the C and AG's impartiality is assured. As a result of his detached and objective position, and because he cannot demand that his suggestions be actionned, the Auditor-General's recommendations carry considerable weight. The appearance of having an axe to grind, brought about through comments on the desirability or worth of government policy, would thus severly constrain his influence.

In fact it is arguable whether some of the Auditor-General's current 'value for money' enquiries do not already call government policy into question. For his part the C and AG argues that:

> our attitude is that if the carrying out of a particular policy is no longer effectively meeting Government objectives, it is likely that public funds are being wasted and action should be taken. Where such instances are revealed ... we would feel obliged to report the matter to the House. However, I should make it clear that in doing this I am not entering into criticism of policy as such. 2

Nevertheless, the fact that the subject matter of government policy is unclear allows the Auditor-General to suggest that projects should be discontinued or statutes changed.[3] Since most policies have their financial aspects any policy could be the object of the Auditor-General's censure if he chose to couch his criticisms in financial

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(of) ... persons with management and specialised technical skills hired on a short-term basis." *A.J.H.R.* 1979, B 1 (Pt 111), p. 6.

[1]See below, p. 87ff

[2]A.C. Shailes, "The Auditor's Responsibility to Parliament," p. 15.

[3]*A.J.H.R.* 1976, B 1 (Pt 111), p. 36; 1977, B 1 (Pt 111), pp. 12, 19.

terms. Since also, there are going to be varying opinions as to what is or is not a policy matter, the decision as to whether to comment in any situation will be a personal one for the Auditor-General. The dividing line will always be very fine. As the Secretary to the Australian Treasury noted in his evidence to the RCAGA:

> I think one ought in realism, though, take into account the point that once you get beyond the question of wasteful expenditure and go into judgements in whether or not this program is being done economically and efficiently, the dividing line between a technical ideal ... which does not obtrude into the policy emphasis of the Minister and Government is very, very difficult to determine ... you are into a policy judgement very quickly if one is not careful. [1]

Just as the efficiency aspect of the comprehensive audit has not been without its difficulties, Audit moves into the effective have also been impeded. Initially the C and AG expressed the hope that these "would be developed in line with progress being made by departments in the development of target-setting procedures and performance measurement techniques."[2] However, the development of the proposed planning, programming and budgeting system for government has been slow and few of Audit's clients have set objectives for the programmes they administer. The Auditor-General has consequently encouraged Parliament and the departments to set objectives against which performance could be measured.[3]

The introduction of comprehensive auditing has been neither easy nor brief and it has not yet been completed. For the various reasons given it is clear that the Audit Office will not go beyond a narrow drawing of the boundaries of efficiency and effectiveness to

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[1]Quoted in J.R. Nethercote. "Efficient Allocation of Resources Within the Public Service," in Hazelhurst and Nethercote, p. 113.

[2]*A.J.H.R.* 1976, B 1 (Pt 111), p. 36; and 1979, B 1 (Pt 111), pp. 12 and 19.

[3]*A.J.H.R.* 1978, B 1 (Pt IV), p. 31.

provide a full scale efficiency audit for government. Whether or not this role is appropriate to the needs of modern government is discussed in a later chapter.[1] For the moment, while it is possible to see why the Auditor-General has not defined his new mandate as broadly as elsewhere, there is still the question of why the progression from the simple financial audit was made in the first place?

3. EXPLAINING THE AUDIT APPROACH

To comprehend the present labours of the Audit Office it is necessary to understand the history of attempts to improve financial management in the New Zealand government. Throughout the 1960s, as in many other countries,[2] there was a growing disenchantment with the ability of traditional budgetary procedures to cope with the demands of a rapidly growing public sector. In essence, there were five criticisms of the existing system.[3] Firstly, as the concern for the level of permanent appropriations has shown, not all of government expenditure came up for an annual review. The expenditure of the semi-autonomous agencies was largely free from Treasury enquiry and almost completely detached from the scrutiny of Parliament. Secondly, budgets were prepared with an overwhelming emphasis on the year ahead. There was little planning (apart from the Works Programme which attempted to synthesize departmental requests for capital works and project them over a five year period) and this "contributed to considerable fluctuations in government expenditure from year to year

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[1] See below, p. 138

[2] See, for an account of European experiences, David Coombes et al., *The Power of the Purse* (London: George Allen and Unwin, 1976).

[3] Apart from the last these are derived mainly from D.A. Shand, "The Forward Planning of Public Expenditure," *New Zealand Journal of Public Administration*, 33, 1 (1970), pp. 12-29.

and to a waste of resources through an insistence on false economies."[1] Thirdly, and associated with this lack of long-range vision, governments had used public expenditure to give effect to short-term economic policies. The Works Programme in particular suffered from frequent arbitrary cuts to enable government spending to be held within politically expedient limits. Fourthly, the system encouraged budgeting on an incremental basis. The departments could merely compare their actual expenditure with their appropriations for the previous year in order to arrive at a basis for calculating future expenditure bids. With existing commitments to staffing and normal departmental running costs, Treasury found it extremely difficult to obtain economies of more than one or two percent. But the most important failing of the system lay in its traditional emphasis on the legal control of expenditure rather than the promotion of the wise management of public funds. The budget was presented in the form of line itemisations which spelled out the objects (materials, equipment, manpower, and so on) which government had to procure to carry out its functions,[2] depicting the inputs rather than the outputs of the governmental system. While this was ideal in that it facilitated the centralised control of public funds by Treasury and made simple and straightforward accountability for legality and regularity through controls over the disbursement of funds[3] and the annual

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[1]D.A. Shand, "The Forward Planning of Public Expenditure," p. 29.

[2]Kenneth W. Knight and Kenneth W. Wiltshire, *Formulating Government Budgets* (St. Lucia: University of Queensland Press, 1977), p. 83 ff.

[3]In some respects this may be referred to as a pre-audit for it involves control of the issue of money from the Public Account (thus, the use of the term 'Controller' and Auditor-General). There are two aspects to this control. By section 59 of the Public Finance Act 1977 no money may be issued from the Public Account without a warrent signed by the Governor-General. He, in turn, relies on a certification by the C and AG that the warrant may be lawfully issued. To ensure that there are sufficient funds in the account the bank statement is cited, and if not, then the C and AG will warn government

post-audit, since expenditure was not related to function, it did nothing to control it in terms of its efficient and effective management.

Recognition of these ills came from the McCarthy Commission of 1962 which closely followed the report of the British Plowden Committee of a year earlier. McCarthy lamented the top heavy vesting of expenditure control in Cabinet, the absence of planning and the decline in Parliament's ability to effectively review government spending. It recommended increased delegation of spending authority, forward planning of expenditure and the creation of a Parliamentary select committee to oversee the budgetary process.[1] Specifically, McCarthy urged that:

> Every effort be made by Treasury and by departments to develop and extend the techniques of programming expenditure on the basis of surveys or forecasts both of the anticipated needs for such expenditure, and of the prospective resources. 2

At the same time a number of public servants were becoming aware of the possibilities for improving financial planning offered by a planning, programming and budgeting system.[3] Significantly A.C.

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of the situation. This occurred as recently as August 1979.

Secondly, the Audit Office countersigns the daily funding cheque to authorise the transferral of funds from the Public Account to the Disbursement Account. It thereby ensures that the amount is within the Governor-General's warrant and that there are appropriations against which to charge the expenditure. The effectiveness of this procedure, however, is more limited. At one time each individual disbursement came before the C and AG for his personal signature but this is no longer the case. There are so many cheques issued in a day that this is now an impossibility. Moreover the C and AG does not check that each payment accords with a parliamentary appropriation; he ensures only that sufficient funds are transferred. Consequently illegal expenditure is not likely to be detected in this way so there must be a 'tip-off' either from Cabinet or from Treasury. In any case such intentional illegal expenditure is rare and would undoubtedly be picked up in the course of the normal post-audit.

[1] McCarthy, pp. 391-392.

[2] Ibid., p. 391.

[3] For a general discussion, see J.C. Cutt, "Program Budgeting and Analytical Support Systems," in McMaster and Webb, pp. 8-21, and Knight and Wiltshire, pp. 83-115.

Shailes and N.V. Lough occupied positions in the New Zealand Embassy in Washington where they took particular interest in American experiments with PPB and the report of the Glassco Commission in Canada. Although the literature in this field has become voluminous and the terminology is frequently confused, PPB as it developed in New Zealand consisted of three strands. It was, firstly, a taxonomic device in that it sought to classify expenditure according to goals and objectives. Secondly, it formalised and improved existing planning procedures to enable projections to be made over a three year period and thirdly it attempted to ensure some form of programme analysis through the comparison of costs with outcomes and the exploration of alternative course to those outcomes.[1]

In 1967, Shailes, now returned to Treasury, headed a study group on government expenditure control systems. The report of the group, *Financial Planning and Control*,[2] recommended a comprehensive restructuring of government's financial management systems, including the introduction of PPB.[3] In particular the report recognised, as had the Glassco Commission, that there was a need for the programming of expenditure on an output basis and stressed that there should be improved analysis of achievement of objectives.[4] Published in February

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[1]The New Zealand Treasury has employed the term to describe a system of financial management which provides:

> A systematic approach to budget formulation oriented towards the objectives of government policy;
>
> A programme device which translates objectives into specific expenditure programmes and annual budgets;
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> A method of control and evaluation to provide Government and departmental management with the information necessary to evaluate progress towards defined goals.

The Treasury, *The Planning and Control of Government Expenditures*, p. 22.

[2]The Treasury, *Financial Planning and Control: Report of the Study Group on Treasury Procedures* (Wellington, December 1967).

[3]D.H. Hawkes, "Resource Acquisition in a New Zealand Bureaucracy," *New Zealand Journal of Public Administration*, 39, 2 (1977), p. 28.

[4]See *A.J.H.R.* 1978, B 1 (Pt IV), p. 17.

1968, *Financial Planning and Control*, was adopted as departmental policy by Treasury.

The first task facing Treasury was to design an accounting system which would classify expenditure by functions and activities and which would emphasise the managerial rather than the legal aspects of control. This necessitated ridding the budgetary process of a system "oriented around meeting the statutory requirements of the parliamentary system rather than the needs of departmental management."[1] The quality of information generated by this system had limited the usefulness of the earlier forward programmes.[2] A system of integrated government management accounting (SIGMA) was developed and it was envisaged that it would provide information, not only on the more traditional items of expenditure, but also on expenditure by departmental activity and by responsibility centres.[3] The SIGMA coding structure consequently divided expenditure into Standard Expenditure Groups and Items[4] (reflecting the earlier emphasis on inputs) but it also made room for departments to express their spending in terms of programmes, to divide and sub-divide those activities into their component parts, and to manage expenditure in terms of the offices or centres from which it took place. In this final aspect SIGMA reflected the concerns of the 1968 Fulton Committee Report which had laid great emphasis on managerial skills and the concept of accountable management. In what turned out to be a crucial recommendation, Fulton had argued that "government departments need a structure in which units and individual members have authority that is clearly defined

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[1] A.C. Shailes, "Planning, Programming, Budgeting," in *Financial Administration in Public Authorities*. Proceedings of a seminar held at the University of Waikato, May 1970, p. 11.

[2] Van Gelder, p. 36.

[3] Shailes, "Planning, Programming, Budgeting," p. 14.

[4] For an explanation of these terms see Preston, pp. 35-40 and 68-71.

and responsibilities for which they can be held accountable."[1]

The introduction of SIGMA necessitated a change in the format of the Estimates and this was begun with Vote Transport in 1969. The Estimates soon came to show departmental activity programmes, as well as the standard expenditure groups,[2] but for reasons which are set out below, few departments made use of SIGMA's provisions for the sub-division of programmes. Instead, as the Estimates reveal, they chose to again split the programmes into the standard expenditure groups[3] (SEGs). The emphasis on inputs was thus retained.

The second, and probably the most important element of PPB, the forward plan, arose out of Treasury efforts to make better use of the three year expenditure forecasts prepared by departments. In 1966 a planning unit had been set up in the Treasury to make better use of the forecasts and to improve the quality of information used in formulating the Works programme.[4] According to H.R. Lake, then Minister of Finance, its purpose was "to provide increasingly comprehensive perspectives of development for a period of years ahead on the basis of the best information possible."[5] But the forecasts had not been greatly used because they dealt with complete departments rather than with separate activities and because their collection and analysis had never been formally constituted.[6] Shailes studied the problem overseas in 1968 and settled on the concept of an officials committee similar to the British Public Expenditure Survey Committee. As Director of Finance in the Treasury, he was responsible for the

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[1] Fulton, Vol. 1, Par. 145.

[2] J.R. Battersby and D.A. Shand, "Planning, Programming, Budgeting Systems," *The Accountants' Journal*, 50 (1971), p. 269.

[3] Preston, p. 38.

[4] *A.J.H.R.* 1966, B 5, p. 22.

[5] Ibid.

[6] Battersby and Shand, p. 269.

setting up of a Committee of Officials on Public Expenditure (COPE) in 1970. At the time, he expressed the hope that this committee would review public expenditure growth patterns, consider forward programmes in functional groups, and make recommendations to government on the options available for varying the rate of expenditure growth.[1] Initially COPE's major task was the assessing of the costs of existing government policy but gradually the committee became more concerned with the task of preparing the forward plan.

With the COPE exercise fully underway the Treasury impetus seemed to die down and there were only two more significant advances. In 1975 a computer based financial forecasting system (FFS) was introduced to update the COPE forecasts,[2] while in the following year a monthly cash budget system was set up to provide an early warning system for departments of likely over and under expenditure.[3]

With regard to the third strand of PPB, the analysis of existing programmes, little was achieved. Reviewing its progress in 1973 Treasury outlined those aspects of PPB which it considered to be its responsibility and those which fell to the departments. Believing that the departments "must play the major role", it urged that they educate and elevate officers involved in financial management.[4] It noted that "the major effort for improving existing resource management systems ... must be made by each Government department,"[5] but it reserved for itself the responsibility for promoting departmental analysis of programme achievement, Thus,

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[1] Shailes, "Planning, Programming, Budgeting," p. 17.

[2] *A.J.H.R.* 1978, B 1 (Pt IV), p. 17.

[3] Ibid., p. 18.

[4] The Treasury, *The Planning and Control of Government Expenditure*, p. 37.

[5] Ibid., p. 38.

> It would be Treasury's responsibility to assist departments in developing programme analysis and evaluation capabilities appropriate to the size and importance of their activities. 1

In fact Treasury gave little more than a "token nod" to the importance of having suitably qualified staff to make PPB work,[2] even though Shailes had pushed for "an adequate supply of highly skilled innovative staff,"[3] when COPE was established. At the same time an Audit Office review in "almost all departments" concluded that the lack of properly trained analysts and inappropriate departmental structures were prohibiting departments from reaping the benefits promised by the system.[4]

With the considerable over expenditure by some departments in 1975 and 1976 attention was again focused on the adequacy of PPB as an expenditure control device. The Public Expenditure Committee undertook a study of three departments to attempt to define its causes, while the Holmes Report commented on a lack of progress in the implementation of PPB and laid the blame with the 'half-hearted' attempts of departments. It concluded "not that PPB has failed, but that it has not yet been genuinely tried."[5] Similarly the Monetary and Economic Council was critical of some of PPB's procedures, arguing that they

> entrench patterns of public expenditure, particularly current expenditure, and make short-term measures to control or vary expenditure difficult. **6**

There was thus a growing feeling that all was not well with the new

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[1]The Treasury, *The Planning and Control of Government Expenditure*, p. 37.

[2]Ian Ball and Brian Ashton, "Interview with the Controller and Auditor-General," *Public Sector*, 1, 1 (1978), p. 6.

[3]Shailes, "Planning, Programming, Budgeting," p. 16.

[4]*A.J.H.R.* 1973, B 1 (Pt 11), pp. 6-7.

[5]Holmes, p.248

[6]New Zealand Monetary and Economic Council, *The Public Sector*, p. 13.

budgetary system. If it had solved some of the earlier problems it had certainly created some new ones as well. Thus, in 1977 one study could observe that "there is a need for some body to carry out a detailed investigation into the planning, programming and budgeting of public expenditure ... to look at the problems that have arisen and decide ... whether there is a need for further reform."[1] Already, however, such a review was being set in hand. In August 1975 Shailes had left the Treasury to take up the position of Auditor-General. It was from this position that he instigated a review of financial management in government by an Audit task force,[2] which examined in detail the achievements and failures of the PPB system.

The Shailes Report: Back to Basics

When the *New Zealand Herald* captioned its cartoon "Back to Basics" after the publication of the special Audit review of financial management, it was not far wrong. In many respects the review was an investigation into the development of PPB with the 'basics' being the objectives of the Treasury report of a decade before. Certainly, it harked back to *Financial Planning and Control* and measured the achievements of PPB against its expectations. In all, the review painted a gloomy picture, acknowledging few advances over the ten year period. The review noted, for example, that:

> Financial management in administrative departments is mediocre and lacks positive leadership ... the potential for effective management of resources has not been recognised ... estimating procedures and approval systems are too rigid and complex ... the centralised Government accounting system is not meeting the requirements of many departments ... accountability to Parliament is inadequate. 3

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[1] Hawkes, p. 39.

[2] The group comprised three senior officers and two private sector accountants.

[3] *A.J.H.R.* 1978, B 1 (Pt IV), p. 7.

Why, then, had PPB failed?

Using the review and other sources it is possible to determine that it met with two responses: a bureaucratic response and a political response. Both of these were brought about because the system, if it was to work effectively, demanded changes in the allocation of power amongst the public servants and politicians who made up these two groups. This can be seen most clearly in the response provided by the bureaucracy.

The primary cause of the deficiencies, according to the review, had been a "general lack of appreciation of the proper role of the senior financial officer,"[1] both by the departments and by Treasury and the SSC. At the departmental level this should have come as no surprise. Shailes had noted in 1970 that the departmental accountant, who would implement the system, would have to be elevated to become "part of the top policy making team in his department."[2] PPB thus demanded a re-organization of the elites of many departments, upsetting established hierarchies and giving advanced seniority to some officers. The support of the permanent head for such changes was consequently crucial. Where PPB had worked, as in the Defence Department, it could be attributed to the leadership of the department head.[3] Clearly, PPB had proved only as good as the staff designated to implement it.

If the departments had shied away from appointing accountants

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[1]*A.J.H.R.* 1978, B 1 (pt IV), p. 8.

[2]Shailes, "Planning, Programming, Budgeting," p. 17.

[3]J.F. Robertson, too, was in Washington in 1960-1961. On his return to New Zealand he was appointed technical adviser to the McCarthy Commission and was associated with the preparation of the State Services Act 1962 and the Public Service Regulations 1964. Some of his views on PPB and accountable management can be seen in two articles written in 1965 and 1969. See J.F. Robertson, "Efficiency and Economy," and "Public Service Management in the 1970s," *New Zealand Journal of Public Administration*, 32, 1 (1969), p. 23.

to senior positions as the 1968 report had urged, Treasury and the SSC had accepted "neither the need for financial managers nor the need to pay them at a proper salary level."[1] The point was made in Chapter One that the permament head has had only limited control over appointments and gradings in his departments and the present example serves only to bear out this contention. Even if the departments had been prepared to make the necessary changes, and certainly some were, it would appear as if the control agencies had given little encouragement for this to occur through failing to create the necessary positions and career structures.[2]

In addition, many of the financial management techniques pioneered in the Treasury were found to be defective. SIGMA was not providing departments with the appropriate information; COPE had continued to place emphasis on the first year's expenditure; the Financial Forecasting system was described as encouraging an "incremental approach to forecasting" while the application of the monthly cash budget system had not been wide enough.[3] In particular there was criticism of the COPE exercise developed some eight years before. What was originally intended to be the planning phase of PPB had become "an exercise in justifying the allocation for the present year."[4] Also, it was doubted whether the committee had achieved its objective of linking departmental expenditure with government's expenditure targets and resources.[5] To correct these problems it was suggested that a new division be created within Treasury to take charge of such matter as

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[1]Ball and Ashton, p. 4.

[2]Ibid.

[3]*A.J.H.R.* 1978, B 1 (Pt IV), pp. 15-18.

[4]Quoted in Ball and Ashton, p. 5.

[5]Ian Ball, "Financial Management in Administrative Government Departments," *The Accountants' Journal*, 57 (1978), p. 306.

preparing the Public Accounts, recommending policies and guidelines for financial management and reporting to Parliament on developments in these fields.[1] To co-ordinate and direct this activity Audit envisaged the appointment of a Chief Accountant of Government at a level "*at least* equivalent to an Assistant Secretary to the Treasury."[2]

In this, probably the most crucial recommendation of the review, there were echoes of the report of the Auditor-General of Canada in 1975.[3] The review urged that the person appointed to this position should have

> a proved record of outstanding competence and achievement at senior levels of responsibility and ... extensive experience as a senior financial executive in a large organization in either the public or private sector. [4]

Finally, as part of the bureaucratic response to PPB, the review discovered that little attention had been given to the analysis and evaluation of programmes. Despite the fact that this was one of the central themes of *Financial Planning and Control*[5] only four of thirty departments had instituted PAE units.[6] Moreover, since Treasury had taken the responsibility for this aspect of the planning, programming and budgeting system, it was required to shoulder some of the blame.[7]

The second response to PPB was a political one. The Shailes report suggests that a major commitment *by government* to an effective and efficient financial management system has been lacking. Thus

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[1] *A.J.H.R.* 1978, B 1 (Pt IV), p. 13.

[2] Ibid., p. 14 (emphasis added).

[3] See above, p. 46.

[4] *A.J.H.R.* 1978, B 1 (Pt IV), p. 14.

[5] Ibid., p. 17.

[6] Ibid.

[7] Treasury has now approval to develop its own PAE unit which would service the departments but this has been held up by the need to find a "high powered man" to head it. Colin James, *National Business Review*, 27 June 1979, p. 11.

the failure of PPB may be attributed not only to bureaucratic inertia and Treasury inactivity, but also to a lack of political support.

It would appear that this occurred to prevent an increase in the power of Parliament at the expense of the executive. For example, had the COPE forecasts been published they would have enhanced Parliament's position and enabled it to better call government's to account for their policies. Consequently, they were not published. As the C and AG explained,

> COPE has not achieved what we set out to do because the forward estimates ... have not been published ... The idea was ... that these estimates would be tabled and would therefore contribute to better discussion by parliamentarians in the Estimates debate ... Unfortunately time has passed and they have never been published. [1]

Of undoubtedly greater importance, however, has been the failure to alter the Estimates and the Public Accounts since, as it has already been suggested, the power of Parliament depends largely on the information available to it.

One recent study of the Public Accounts has observed that "they record the cash transactions of the Government and provide basic accountability to Parliament."[2] Such accountability, however, is minimal. The accounts do not reveal information such as the degree to which government has committed itself to future expenditure, nor do they give a clear indication of which departmental programmes have incurred expenditure.[3] Because they reflect the format of the Estimates there is no functional description of what has been spent. Expenditure on associated activities may be scattered throughout the accounts, providing little guide to the efficiency of the departments.

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[1] Quoted in Ball and Ashton, p. 5.

[2] Preston, p. 49.

[3] R.J. Polaschek, *Government Administration in New Zealand* (Wellington: New Zealand Institute of Public Administration, 1958), p. 243.

Thus Polaschek's claim that "even the most careful scrutiny of the documents before Parliament will not reveal the cost of every government undertaking,"[1] remains valid. The Auditor-General, too, has been critical of the cash basis of the accounts and has commented on departmental attempts to contrive results.[2] Proposals for change are occasionally made to the Treasury[3] and the Public Expenditure Committee and this has resulted in some improvements.[4]

More significantly, the format of the Estimates has detracted from Parliament's ability to scrutinize expenditure. Although modified slightly to give greater emphasis to departmental spending programmes they have continued to stress items of expenditure rather than activities. Although it may not be true to say, as Finlay has done, that "the form in which the Estimates are now set out is calculated to conceal much more than it reveals,"[5] successive governments have certainly not been keen to revise the Estimates format. To do so would be to disclose a government's plans in a more comprehensible manner, permitting more penetrating and pertinent debate and enabling comparisons with previous years. The review noted that "the major emphasis within departments and Treasury has continued to be on items,"[6] and pointed out that this was "contrary to the aims of the reforms introduced since 1968."[7] It argued that the Estimates format should be changed to show departmental objectives, measures of activity, and detailed analysis of expenditure. Departmental

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[1]Polaschek, p. 244.

[2]*A.J.H.R* 1976, B 1 (Pt 11), p. 109.

[3]*A.J.H.R.* 1971, B 1 (Pt 11), p. 7.

[4]*A.J.H.R.* 1979, I 12, pp. 8-9.

[5]Finlay, p. 71.

[6]*A.J.H.R.* 1978, B 1 (Pt IV), p. 31.

[7]Ibid.

reports, it was suggested, should show the extent to which programme goals are being achieved.[1]

How then is the Shailes report to be interpreted? In one sense it is a practical example of Audit's definition of an efficiency audit for it highlights the weaknesses in the financial control systems of central government and suggests improvements. But in another sense it is very much more than this, for it represents part of the on-going attempt to improve financial management by an actor who has been intimately concerned with the process since its inception. Interpreted in this way the activities of the Audit Office fit very neatly into the history of PPB in New Zealand and can, in large measure, be explained by the aspirations and personal involvement of the present Auditor-General.

4. THE AUDIT VIEW

Constitutional interpretations of the role of the Auditor-General have tended to regard him very much as a spectator, entering the political arena only after spending has occurred. Compare, for example, the views of Lipson: "legality ... not policy, is the province of the Controller and Auditor-General,"[2] with those of Jennings:

> Primarily, then, he is a referee ... He sees that the rules are observed. He blows his whistle when he observes an infringement. Though he sends nobody off the field, the Treasury ... may. 3

The evidence, however, suggests that this is not now the case in New Zealand. In fact the Audit Office seems almost as involved in the

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[1] *A.J.H.R.* 1978, B 1 (Pt IV), p. 32.

[2] Leslie Lipson, *The Politics of Equality* (Chicago: University of Chicago Press, 1978), p. 327.

[3] Sir Ivor Jennings, *Parliament* (Cambridge: Cambridge University Press, 1975), p. 324.

processes of government as the Treasury; its officers man interdepartmental committees, advise departments and their permanent heads and assist with parliamentary committees.

Weller and Cutt have suggested that although "departments are seldom united, seldom completely monolothic ... at the same time there is a sense in which all departments have a view."[1] This is true of the Audit Office. Its policies are well articulated (through its reports and numerous speaking engagements), its goals clearly defined, and through various means it attempts to persuade the administration that they are viable and worthy of implementation. The 1978 review was one of these, contacts with individual departments is another, and relations with the Public Expenditure Committee yet another. Specifically, the changes Audit would like to see are of two kinds. The first relates to those improvements in financial management within departments which can be implemented by the departments themselves, including upgrading the quality of financial staff, increased delegation for spending and greater use of activity programmes. In the second group the reforms are more substantial and may require not only changes in legislation but also the adoption of new attitudes on the part of Treasury or the Minister of Finance. They include such goals as revamping the Estimates format, the use of revolving funds, and an increased commitment by Treasury to financial control. To achieve these goals Audit may enlist the support of its ally, the PEC, while others, particularly the upgrading of internal audit groups, require the assistance of the SSC.

It is perhaps because PPB did not make the policy-making process more rational and coherent as it was expected that the Audit

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[1]Patrick Weller and James Cutt, *Treasury Control in Australia* (Sydney: Ian Novak, 1976), p. 45.

programme is bound up with an over-arching desire to increase accountability, introduce rationality into government, and place it on a more business-like footing. Despite the obstacles, the desire for rationality is still strong, with the result that, even if PPB as a system has proved impractical, the Audit Office is prepared to see the introduction of selected aspects of it.

In particular, there has been an emphasis on the concept of 'accountable management', which recognises that financial management is being held up by parliamentary procedures designed around an earlier conception of financial control. Accountable management, or 'management by objectives' as it is sometimes called, would "let the managers manage". Like Fulton and the RCAGA, Audit would like to see the participants in the governmental process adopt a new set of attitudes to accountability and efficiency. As the Deputy C and AG observed:

> The Minister must be prepared to set policy objectives in much more concrete terms. The permanent head must be prepared to translate policy objectives into objectives for management - these objectives must be set in terms which can be measured. Operational Managers must be prepared to set physical tasks for the performance of those objectives. The control agencies (Treasury and the SSC), when approving requests for funds and personnel, must be prepared to delegate heavily to Permanent Heads the abilty to make decisions on resource use given proper guidelines. Finally, parliamentarians must be prepared to vote moneys to departments in round sums by programme to achieve the objectives of programmes. To do this they must be presented with programme objectives in meaningful terms, they must be free to question those objectives and they must also be prepared to hold Permanent Heads accountable for the achievement of those objectives... [1]

5. SUMMARY

One explanation for the behaviour of departments lies in the

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[1] J.T. Chapman, "Management Information System for the 1980s," an address to the New Zealand Institute of Public Administratiob, Wellington Branch, October 24, 1979, pp. 10-11(Typescript).

impact individuals have on them and their movements between them. The foregoing suggests that the aims and actions of the Audit Office, particularly the development of its efficiency and effectiveness audits, have come about largely through the influence of the incumbent C and AG. It would seem as if personal rather than institutional factors have served to shape the Audit role. Of course, the trend towards the provision of increased auditing services noted in the previous chapter cannot be discounted. Some of this certainly "rubbed off" in New Zealand, particularly in the early years, from 1971 to 1975. However, there appears to have been no reason, discounting Shailes' involvement, why Audit should have advanced significantly beyond the financial audit (with its value for money aspects), particularly in a time of decreasing staff resources.

Potentially, the new powers of the Audit Office are very great, although, as this chapter has shown, they are hedged about with quite considerable constraints. For the moment, however, they are muscles yet to be flexed. When this occurs the need for more staff and increased finance will bring the Audit Office into greater contact with the Treasury and the SSC and it may be through these agencies that a government could most easily constrain the development of the efficiency and effectiveness audits. How the Audit Office currently deals with these agencies is examined in the following chapter. More importantly, there follows an analysis of the independence of the C and AG, for this is a crucial determinant of the effectiveness of the auditing function.

CHAPTER IV

INDEPENDENCE AND THE GOVERNMENT AUDITOR

> The author : I wonder if we could consider a hypothetical situation. Let us say, for example, that your Minister told you to lay off a department because your investigations were proving politically embarrassing. What would you do?
>
> The C and AG : We wouldn't take any notice of him!

It is fundamental to the state auditor's effectiveness that the government is unable to exercise any control over his ability to audit or to report. The auditor must be able to make his evaluations without fear or favour and this includes such factors as the elimination of personal bias. This chapter examines how the Auditor-General achieves that independence more especially in relation to Treasury, the State Services Commission and the government more generally. Because it is a government department it must deal with these agencies as other departments do, yet it must remain independent and apart from them.

Denham[1] and McInnes[2] have formulated classifications to measure the auditor's independence. The Auditor-General himself has suggested that to be effective he must have access to information, freedom from instruction and staffing supervision, the ability to secure financial resources to support his operations, and an unfettered right to report.[3] But these frameworks take only statutory provisions into consideration and do not pay heed to the norms, conventions and behaviours which are equally important and often more accurate measures of the relation-

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[1] Denham, p. 266.

[2] McInnes, pp. 46-54.

[3] *N.Z.P.D.*, Vol. 415, p. 4372. This framework is not unlike that described by Normanton, p. 300.

ship between the state and its auditor. For this reason this chapter assesses the Auditor-General's independence with the following measures:

1. The arrangements made for the Auditor-General's appointment and dismissal, his tenure of office and salary;

2. The means of funding the C and AG's activities;

3. The degree of technical expertise and staff resources available to the Auditor-General;

4. The powers of the Auditor-General; his access to information and persons; and

5. The deportment of the incumbent; the extent to which he 'distances' himself from the administration.

1. APPOINTMENT, DISMISSAL, LENGTH OF TENURE AND SALARY

The conditions of appointment and dismissal of the C and AG, the length of his tenure and the salary he is paid are disguised indicators of his independence, but they are important for two reasons. They give a hint to the status of the Office ascribed by Parliament and they determine the quality of manpower to which the C and AG may have recourse.

The position of Auditor-General is, in some respects, unconventional. Although he heads a government department he is not himself a member of the public service. In recognition of his association with the PEC and because he audits the Public Accounts on the House's behalf, there is a common view that he is an 'officer of Parliament'. In fact, while his dismissal is conditional upon a motion of the House, he is not appointed by Parliament nor is he subject to its direction. It is not surprising, therefore, that the Auditor-General should regard himself not as an officer of Parliament, nor of course of government, but of a third and higher authority, the Crown.[1] This serves to guarantee his independence, for were he to submit to parliamentary direction he would also be subject to the exercise of the government majority. This 'special' status is reflected in the nature of the Auditor-General's appointment. The C and AG is appointed under section 16(1) of the Public Finance Act 1977, "by the Governor-General on behalf of Her Majesty". Since, by convention, the Governor-General acts on the advice of his Ministers, the government nominee is always appointed. When the position falls vacant anyone may apply but the government 'selects' its own Auditor.[2] Such procedures virtually exclude non-governmental involvement in appointment. The Prime Minister may consult informally with the Chairman of the State Services Commission and the Secretary to the Treasury, but the Leader of the Opposition need not be consulted. Similarly, Parliament is excluded and there is no public discussion.

Comparison with other public officers such as the Ombudsman reveals something of the status ascribed to the C and AG. Three status levels may be discerned: on the highest level are the Ombudsman and the Privacy Commissioner who are "appointed by the Governor-General on the recommendation of the House of Representatives".[3] Statutory recognition is therefore given to the inclusion of the Opposition in the decision-making process and consultation does take place in these appointments. It is interesting to note that one characteristic of of these offices is that they are preoccupied with resolving conflicts

[1] A.C. Shailes, "The Auditor's Responsibility to Parliament," p. 3.

[2] In his valedictory report one Auditor-General, B. Greig, remarked that he had been "a somewhat reluctant dragon, for I had not applied for a position I did not seek to fill". *A.J.H.R.* 1970, B 1 (Pt 111), p. 69.

[3] Ombudsman Act 1975, s. 3 (2); and Wanganui Computer Centre Act 1976, s. 5(2).

between the individual and the state, with the onus being on protecting the rights of the individual.

The middle status level is occupied by officers such as the Auditor-General and the Human Rights Commissioner,[1] both of whom are Prime Ministerial appointments, while at the lower end of the scale there are a host of ministerial or 'political' appointments. One appointment which falls between the middle and lower status levels is the Race Relations Conciliator, whose appointment is essentially non-political but which, nonetheless, is made by a Minister.[2]

Thus the selection of the C and AG, while still a matter for the executive to decide, is in no way a 'political' appointment. Indeed, in many respects it is similar to that of a judge. Also, while the position appears to occupy only an intermediary status, it has nevertheless attracted a number of senior public servants over the years. As is the case in Britain, to be the Auditor-General is the climax of a career and not a stage in its advancement.[3] Although the five Auditors-General since 1952 have followed varying paths to that position, their careers do exhibit certain similarities. All at some time worked in the finance departments, Treasury or Audit, although their careers were not exclusively confined to them. C.J. Atkin (C and AG from 1952 to 1960) began in Treasury in 1927 and rose to be Second Assistant Secretary of that department. A.D. Burns (1960-1965) served thirty-eight years in the Audit Office. B.D.A. Greig, who was also a Treasury officer, had had extensive experience in departments like Social Security and on numerous investigating boards before he, too, rose to assistant secretary level. K. Gillies career,

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[1]Human Rights Commission Act 1977, s. 7(2).

[2]Race Relations Act 1971, s. 10 (2).

[3]Normanton, p. 292.

like Burns', was concentrated mainly in the Audit Office where he was a district supervisor, a director, and then deputy C and AG. The present Auditor-General, A.C. Shailes, began his public service career in the Labour Department but soon shifted across to Treasury, rising, after stints with the Cabinet Secretariat and the New Zealand Embassy in Washington, to Assistant Secretary level.

Chubb has described the C and AG as the "amateur head of a department of professionals"[1] but the above suggests that he is far from being an amateur in financial matters. In fact, and this is Chubb's point, it is quite possible for a C and AG to be appointed who is not and never has been an auditor; but this matters little. The position requires administrative and managerial expertise and the appointment is made on that basis.

There is no fixed term of appointment for the C and AG although he must retire at 60.[2] If, however, the C and AG has not held office for five years when he reaches that age he may continue until the five years elapses. Thus, B.D.A. Greig, who was appointed aged 58 in July 1965 remained C and AG until August 1970. Although in recent years, A.D. Burns, Greig and K. Gillies have all held office for a five year period this is by no means the norm. C.J. Aitkin was the C and AG from 1952 to 1960, while the present office holder will serve an eight year term. Some Auditors, like J.K. Warburton and G.F.C. Campbell, served for fourteen or fifteen years. J.H. Fowler served only two years before the Second World War, while the office's most illustrious occupant, J.E. Fitzgerald, exercised his duties as controller and auditor from 1872 to 1896. In all there have been eleven Auditors-General since 1896, each serving on average a 7.8 year term.

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[1] Chubb, pp. 172-173.

[2] Public Finance Act 1977, s. 19(1).

Like the Ombudsman, however, the C and AG's appointment may be brought to an end by the Governor-General on a parliamentary motion.[1] This is one sense in which he may be regarded as a parliamentary officer. When Parliament is not sitting his fate lies with the Executive Council. Although the Governor-General normally presides over this body, which in terms of personnel is nothing more than Cabinet but with slightly different functions, he need not be present; a quorum is constituted by only three Ministers.[2] Formally then, the Auditor-General's hold on his office is a tenuous one; he certainly does not enjoy an irremovable status as in Belgium or France.[3] But despite some uncomfortable clashes with governments over the years,[4] there have been no sackings, suggesting that security of tenure is guaranteed as much by other factors as it is by legislation. The most important of these is undoubtedly public opinion. Since 1858 Parliament has demanded that the Auditor-General, if removed, be re-instated once Parliament itself has reconvened.[5] The need to publicly debate the removal of the C and AG occasioned by this provision therefore protects his position.

For all this, it would be a nonsense to suggest that the removal of the C and AG would check the audit function. There is a statutory obligation on the Deputy to assume the C and AG's mantle[6] and even the

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[1] Public Finance Act 1977, s. 20(1); Ombudsman Act 1975, s. 6(1).

[2] Royal Instructions, Cl. IV, 11 May 1917. New Zealand Gazette 1919, pp. 1214-1215.

[3] Normanton, pp. 298-299.

[4] In 1890, Seddon secured a reduction of £950 in the Audit Office vote which so incensed public servants that 400 of them met to form a Public Service Association. Fitzgerald, who was then C and AG, was elected the Association's first President. Thereafter he became engaged in a long-standing battle with Seddon to procure more equitable recruitment procedures and the abolition of patronage appointments of which the Prime Minister approved.

[5] Audit Act 1858, s. iv, and Public Finance Act 1977, s. 20(2).

[6] The powers of the C and AG are delegated by s. 24(1) of the Public Finance Act 1977 to the Deputy and to the two Assistants.

removal of both officers would not prevent the Office from functioning. Rather, the purpose of the dismissal provision is to facilitate the removal of a wayward or incapable C and AG. Little pressure could be brought to bear on the auditing of the accounts through its use.

If the conditions of tenure and dismissal attached to the C and AG's office do not have a material bearing on his independence, his salary does. It determines the quality of staff that he may recruit and his ability to retain them. The middle level status indicated by the provisions of his appointment is reinforced by his salary.[1] Although determined by the Higher Salaries Commission and permanently appropriated so as to be beyond governmental influence, the Auditor-General occupies a middle ground equivalent to Group Two departmental heads. The C and AG is paid less than the Chairmen of the SSC and the Planning Council, less than the Commissioner of Police and the Reserve Bank Governor, the same as the Director of the Security Intelligence Service, and marginally more than the Human Rights Commissioner. Although his appointment would suggest a semi-judicial status, this is not reflected in his salary as it is in some jurisdictions.[2] His salary approximates three quarters of that of a judge of the Supreme Court and only two thirds of that paid to the Chief Justice. The C and AG is paid more than most M.P.s, his salary being roughly equivalent to that of the Leader of the Opposition (without allowances).

The effects of this salary are two-fold. First, it sets all Audit salaries at the Group Two level, making it harder for the Office to retain qualified staff. There is some justification then for the

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[1] In 1979 this was set at $33,500. For a convenient summary of the salaries currently paid to higher officials, see *The Press*, 6 September 1978.

[2] In Canada, s 4(1) of the Auditor-General Act 1977 provides that "The Auditor-General shall be paid a salary equal to the salary of the Chief Justice of the Federal Court of Canada." This is only fractionally less than that paid to the most senior departmental heads and equal to the salary of a Minister. See Treasury Board, *Pay Manual*, 23.3 and *Estimates 1979-1980*, 10-44.

Auditor-General's complaints when staff leave to take up more highly paid, but similar, positions in Group One departments or local authorities.[1] Second, and perhaps more important, the salary reinforces the notion of the C and AG as a government official and even further confuses his status. The Auditor-General, then, is appointed as if he were a member of the judiciary (that is, as an officer of the Crown), paid as if he were a state servant, and dismissed as if he were an officer of Parliament. Certainly these factors are more symbolic than real but they symbolise only a luke warm commitment by government to the C and AG's independence. Some clarification of his status would therefore not go amiss.

2. FUNDING THE AUDIT OFFICE

Although the Audit Office charges most of its clients for its services, it could not be said that it is independently funded.[2] Like other government departments it receives an annual parliamentary appropriation. Senior Audit officers are questioned by the Treasury over the departmental estimates and the Deputy attends the House when those estimates are being debated. In the determination of the Audit budget the Office must contend with Treasury, the Committee of Officials on Public Expenditure and its Minister.

In 1978 the Commons' Select Committee on Procedure criticised the close relationship between the British Treasury and the Exchequer and Audit Department. The Treasury determines which departments will

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[1]See below, p. 96.

[2]Through the levying of fees for its work the Audit Office recoups nearly 75% of its expenditure. Fees are charged for all financial audits except administrative government departments, the Public Accounts and some local authorities (see B 1 (pt 111), 1979). Any increase in fees is determined by the Minister of Finance.

submit accounts to the C and AG, the manner in which these accounts are to be kept and the recruitment and salaries of E and A Department staff.[1] In New Zealand there is a healthy detachment from "the bureaucrats upstairs"[2] and considerably less administrative subordination. There are some arguments; the Auditor-General has publicly criticised Treasury on occasions but the two departments do not haggle over the Audit allocation.[3] The Office admits that "Treasury ... has always been very reasonable in its allocation of funds".[4] Since both Treasury and Audit share broadly similar co-ordinating and control functions there are often shared goals and outlooks.[5] The Audit Office obeys the Treasury rules "religiously" and in return Treasury respects the C and AG's independence.[6] Indeed it has suited both departments to co-operate. Audit must look to the goodwill of the Treasury for an increase in its appropriation for certain projects while Treasury has utilised the accounting and financial management skills of the Office in a number of ways. The fact that the C and AG may have at one time been a senior Treasury officer also helps to smooth the relationship.[7] As it has been noted, three of the last

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[1] Great Britain Parliament, *Select Committee on Procedure, 1977-1978. Vol. 1,* p. XCIX.

[2] Audit and Treasury occupy the same building.

[3] Interview with A.C. Shailes, the Audit Office, Wellington, 13 December 1979.

[4] New Zealand contribution. "Independence in Budgeting and Staffing." Conference of Commonwealth Auditors-General, London 1978. *Draft Record of Proceedings*. Agenda Head 6, p. 53.

[5] The aims and differences between the two, particularly with regard to improving financial management in government, are neatly brought out by the Report of the Combined Treasury/Audit study group examining the C and AG's review of financial management. Of the thirty recommendations Treasury took issue with Audit's opinion in only five cases.

[6] Treasury, for example, determines the number of pages departmental reports may run to. Audit has argued, successfully, that these regulations should be waived for them.

[7] Interview with A.C. Shailes, The Audit Office, 13 December 1979.

five Audit heads have had Treasury backgrounds.

Like other departments the Audit Office has had regular dealings with the Committee of Officials on Public Expenditure. Since 1973 COPE has examined Audit's revenue and expenditure forecasts for the following three years. While the Committee does not question personnel, and this item has constituted most of Vote Audit in recent years, it has critically reviewed Audits travel requirements in relation to its staffing level. Generally this is Audit's second biggest expense; in 1978-79, for example, it amounted to 9.4 per cent of the Vote.

Finally, mention should be made of the financing of special projects such as those outlined in Chapter Three. The Financial Management Review involved three audit staff and two external accountants for whose services provision was made in the 1977 Estimates. To go ahead the Review required a Treasury commendation and the approval of the Cabinet Committee on Expenditure.[1] In the 1979 Estimates a further $20,000 was budgeted for to permit a review of the use of computers in the public service. Whether Audit must seek approval for this expenditure from the Minister is doubtful. In any case he is always advised.

Although it would be incorrect to say that the extension of the C and AG's activities to include efficiency and programme auditing is dependent on budgetary approval being granted by a Minister, it would appear that where Audit must invoke private sector assistance to achieve that end, the Ministry will hold the upper hand. This is particularly so where a new policy is involved for the approval of the appropriate Cabinet committee must be sought.

Despite these limitations the C and AG has not, so far, complained

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[1]Interview with A.C. Shailes, The Audit Office, 13 December 1979.

of Treasury controls. Requests for increased funds from Treasury and the Minister have nearly always been met, and for good reasons. As the C and AG remarked,

> I couldn't imagine the Minister saying 'no'. He would open himself up to comment by me which would be too embarrassing. [1]

3. STAFFING THE AUDIT OFFICE

Along with finance, manpower is the Auditor-General's most important resource. However, as with funding, the Audit Office enjoys little freedom in fixing staff numbers. Since 1965 the C and AG has been involved in a long-standing and often acrimonious wrangle with the State Services Commission in an attempt to recruit more highly skilled staff and to retain trained auditors. In addition, the C and AG has had to contend with a government staffing policy which requires an annual staff reduction.

Complaints from the C and AG about staffing problems first appeared in 1965 with their form and content changing little since then. Faced with a lack of qualified accountants in all sectors,[2] Audit was in no position to retain qualified officers with low public service salaries. The 1966, 1967 and 1969 Reports document the C and AG's frustration with local authorities paying higher salaries than those paid to his senior staff. In 1969 he was critical of the training scheme designed by the SSC which "defeats its own objects" and "does not necessarily prevent losses of qualified staff."[3] The problem, he noted, was simply that:

> The Audit Office, being a government department, cannot at present compete with large local authorities which are

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[1] Interview with A.C. Shailes, the Audit Office, Wellington, 13 December 1979.

[2] *A.J.H.R.* 1967, B 1 (Pt 11), p. 74.

[3] *A.J.H.R.* 1969, B 1 (pt 11), p. 95.

> also short of qualified men but have a free hand in attracting them by generous salaries. [1]

In 1972 the C and AG expressed the hope that an improved salary scale for the Accountants Occupational Class[2] would assist in the retention of qualified staff but two years later there was only dissatisfaction that "settlement of these issues with the State Services Commission have been protracted".[3] Despite some improvement in public service salaries in the late 1970s Audit has continued to lose staff at an alarming rate. Over the period 1973 to 1978 staff turnover approximated the strength of the office.[4] In all there were 219 recruitments and 190 retirements and resignations. The effect of this has been to lower the average age and experience of Audit staff so that heavier burdens are placed on junior officers.[5] In 1979 the Auditor-General wrote that without a staff increase future years might see the scraping of efficiency surveys such as that done on the use of computers.[6]

The only recourse for Audit is to bring the matter to the attention of Parliament. But the frequency of those reports and the clear absence of favourable outcomes suggests that this "ultimate sanction"[7] is ineffective. Direct criticism of the SSC occasionally brings a small victory[8] but the use of this weapon is limited. Since the Commission is responsible for the efficiency of the public service

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[1] *A.J.H.R.* 1969, B 1 (Pt 11), p. 95.

[2] *A.J.H.R.* 1972, B 1 (Pt 11), p. 67.

[3] *A.J.H.R.* 1974, B 1 (Pt 11), p. 77.

[4] *A.J.H.R.* 1978, B 1 (Pt 111), p. 31.

[5] *A.J.H.R.* 1979, B 1 (Pt 111), p. 31.

[6] Ibid.

[7] Described by the C and AG at the Conference of Commonwealth Auditors-General, London 1978. *Draft Record of Proceedings*, p. 93.

[8] In 1972 the C and AG suggested that the SSC had 'short changed' Audit in its request for increased staff. In 1973 he was able to report that the staff ceiling has been raised by 10 and that "the SSC had been delegated authority to allow a small extra tolerance ...". 1973, B 1 (Pt 11), p. 73.

as well as personnel matters, criticism in one may prevent useful work being done in the other. To improve the quality of internal audit and financial management staff in departments, which is one of the Audit Office's goals, SSC help must be enlisted. The Commission and Audit have co-operated to avoid duplicating some efficiency audits and the SSC occasionally requests the secondment of Audit officers to other departments. More important, the Auditor-General's capacity to mount efficiency and programme reviews is partially controlled by the SSC for where external advisers are used their contracts and salary rates are negotiated by the Commission.[1] Moreover, the development of these audits means regrading some officers which is another prerogative of that body.

Since 1976 Audit has been forced to reduce its overall staff numbers to give effect to a government policy which requires an annual diminution of 1½ per cent. To counter this trend, which appears to be inimical to efficiency and effectiveness evaluations, the Office could pass over to the private sector some of its larger clients.[2] Although this solution has merit (in that the farming out of purely financial audits enables greater resources to be applied to efficiency and programme audits) its use is limited by a lack of the requisite skills among accounting firms.[3] Were private sector accountants entrusted

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[1] A new provision, in the Public Finance Act requires that "the State Services Commission shall have due regard to maintaining the independence of the Controller and Auditor-General" (s. 15(4)).

[2] These audits would probably be of a commercial or semi-commercial nature. See A.C. Shailes, "Financial Management in the Public Sector - Has the Chartered Accountant a Role to Play?" *The Accountants' Journal*, 57 (1978) : 344-345.

[3] Denham argues strongly against the inclusion of commercial accounting firms in public sector audits. He suggests that problems could arise such as avoiding charges of patronage, conflicts in auditing government activities which have business dealings with other clients of the auditing firm, the risks to firms of abrupt shifts of political "favour" and disruption caused by the rotation of jobs among firms. More significantly, he argues that the correct mixture of

with a large number of state audits there might be a tendency to 'raid' the Audit Office for staff qualified to do the work.

Most departments accept the need for control agencies and Audit is no exception. The Office must be practical and work within the administrative structure even if it would like to see a depreciation in the power of the Treasury and the SSC. Thus far Audit has not been troubled by these structures, its independence, if a little battered, remains intact. But to achieve this it has had to rely on its own capabilities, not on a commitment of any sort by the government. The existence of the structure means that the C and AG may not always be protected from interference, particularly as he begins to make judgements about the efficiency and effectiveness of departments.

4. ACCESS TO INFORMATION

As the essential reason for the Auditor-General's existence is the revelation of illegal and wasteful expenditure his function would be stultified if he did not have access to all the information relevant to his investigations. To ensure full accountability it is necessary that the C and AG have access to the records, accounts and files of government.

In New Zealand, as in most jurisdictions, this is a practice of long-standing. The 1858 Audit Act, reflecting the government's reluctance to make the Auditor the final judge of its expenditure, empowered the Audit Committee of the House to "call for all books, papers, and vouchers ... and also to examine witnesses ... upon oath".[1]

"understanding, skill and political wisdom may not be readily available in private audit firms." See Denham, pp. 271-272. Normanton has observed that the private sector auditor and the Auditor-General are as different as a solicitor and a High Court judge. See Normanton, pp. 322-323, 412-413.

[1]The Audit Act 1858, ss. XVII and XIX.

The Auditor, nevertheless, was given the power to examine accounts and to call on government accountants for explanations of their expenditure.[1] But all this was a temporary expedient.[2] By the time Fitzgerald was appointed in 1878 his office enjoyed all the powers once exercised by the Committee.[3] By sections 26 to 28 of the Public Finance Act 1977, the present C and AG is given powers in respect of:

(i) Access to all books and accounts, money and stores;

(ii) Summoning witnesses;

(iii) Administering oaths; and

(iv) Entering land or buildings.[4]

In general, these powers are not unlike those conferred on a Commission of Inquiry[5] or the Ombudsman, both of which, to be independent and effective, require access to information. However, the C and AG's powers are considerably wider than those of the Ombudsman. There is no requirement for him to maintain secrecy in his investigations[6] nor can the Attorney-General refuse to allow the release of information on Cabinet proceedings or where it would be "injurious to the public

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[1]The Audit Act 1858, Second Sechedule, Clauses 1 and 2.

[2]C.W. Richmond expressly admitted this when proposing the Bill. See *N.Z.P.D.* 1858, p. 491.

[3]Sections 61 and 62 of the Public Revenues Act 1867 abolished the Audit Committee and transferred its powers to the Auditor. Provincial Auditors had enjoyed these powers since 1861.

[4]This power, originally part of the Finance Act (No. 3) 1943, is to enable Audit to examine the circumstances surrounding contracts let by Government so that contractors should not make excessive profits at the expense of the public. The power, according to Audit, remains necessary to examine contracts where the lowest tender is not accepted, where only one tender is received, where the contract contains an escalation clause or where additional work is undertaken as an extra and is not specified in the contract. See *A.J.H.R.* 1944 and 1945, B 1 (Pt 11), pp. XVII-XIX and pp. XXI-XXII respectively.

[5]Department of Internal Affairs, *Royal Commissions and Commissions of Inquiry* (Wellington : Government Printer, 1974), pp. 24-26.

[6]Ombudsman Act 1975, s. 21.

interest".[1] In addition, the C and AG may examine the bank accounts of private individuals where he believes public money may have been misappropriated;[2] a power which successive Auditors-General have, necessarily, used with caution.

5. THE AUDIT OFFICE AND GOVERNMENT

The appearance of relationships between government and the Audit Office cannot be overlooked. The Auditor-General is appointed by government and paid by government. His salary is set at permanent head level, his expenses, leave and superannuation are all determined "as if he were a permanent head appointed under the State Services Act 1962".[3] The Audit Department, which he heads, is staffed by public servants[4] and comes under the watchful eye of Treasury and the State Services Commission. So for all practical purposes the Auditor-General *is* the head of a government department. And there are other ties, albeit symbolic, with the executive. The statutory provisions which define and sustain the audit function are not a separate, identifiable entity, but only a part of a larger Act which regulates and controls the public finances. However, there are no formal ties with the executive. In particular, the traditional Minister/department relationship is absent.

Unlike other departments, Audit has no Minister who must answer in Parliament for its actions. The C and AG is consequently

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[1]Ombudsman Act 1975, s. 21.

[2]The Banking Act 1908, s. 22. This power is shared by the Inland Revenue Department (I.R.D. Act 1974, s. 16 (1)), but not by the Police Department.

[3]Higher Salaries Commission Act 1977, s. 33(1).

[4]The 1977 Public Finance Act s. 15 (1) formally constituted the Audit Department as a department of state, its officers to be appointed under the State Services Act 1962 (Public Finance Act 1977, s. 23).

his own master, although he is accountable to the Minister-in-Charge of the Audit Department for the department's finances.[1] The Minister's sole duties are to act as a focus for questions directed to the Auditor-General and to manage the debate on the Vote Audit. When questions do arise in the House - and there have been only seven since 1974 - they are answered by the C and AG through the Minister.

In fact contacts with the Minister are rare. He does not advise the Auditor-General on policy matters nor does the Office advise him. The Minister may ask for advice but he may not require it; he may seek Audit's assistance over some issue, but he cannot demand it. One cannot overlook the fact that it may often be in the C and AG's interest to heed the Prime Minister's wishes - for he has traditionally been the Minister-in-Charge of the Audit Department - but at the end of the day it is the Auditor-General and not the Minister who makes the decision. In any case, whether advice is tendered formally or informally, Audit is not prepared to express an opinion as to the desirability of government policy.[2] Communications with other Ministers are even more rare although this may change with a move to effectiveness evaluations. In the period under study, Audit had only once gone above a permanent head to a Minister where it appeared that the department was exceeding the spending limits it had been delegated. It would be impractical for any permanent head to try to avoid politicians and get on with the running of his department and this is equally true for the Auditor-General. But most C and AGs have been loathe to become too deeply immersed in political affairs. Apart from

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[1] *A.J.H.R.* 1978, B 1 (Pt 111), p. 5. This Report contains a full and frank discussion of the implications for Audit of the 1977 Public Finance Act.

[2] In an interview with the author, the Auditor-General stated: "We are always happy to talk to politicians, but in no way will we attempt to influence policy" (13 December 1979).

dealings with the Public Expenditure Committee, which are discussed in a later chapter, the Audit Office has little contact with Parliament. The Deputy attends the House when the Estimates are considered to preserve the traditions of his chief's independence.[1] Informal requests from members for information are met as far as resources permit[2] but this is hardly more than the ferreting out of published material. Audit Reports on departments and government agencies are not made available to any member, even in the PEC context. Formal parliamentary questions asking that the C and AG carry out a specific investigation are treated on their merits.[3] The Audit Office is prepared to investigate any complaint which "indicates that ... action is warranted".[4] So the request of one Labour member in 1977 for Audit to investigate Health Department payments to an abortion clinic was acceeded to. But the decision was Audit's, and not that of the Minister, who answered only that he had been 'advised' of the compliance of the Office.[5]

Nevertheless the presence of the Minister has confused M.P.s who frequently imply that the Auditor-General is a permanent head *with all the attendant responsibilities of that position.* In 1960, for example, Parliament debated the propriety of the Deputy Leader of the Opposition in pointing out to the Auditor-General that some of the comments in his report were wrong. When John Marshall argued that it was "entirely proper for any member of the House to approach the Controller and Auditor-General, who is an officer of Parliament, at any time on any matter"[6] there was a howl of protest from the Government. Was that,

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[1] Interview with J.T. Chapman, the Audit Office, Wellington, 28 January 1980.

[2] Interview with A.C. Shailes, the Audit Office, Wellington, 28 January 1980.

[3] The policy of the Audit Office in this area is laid down in *A.J.H.R.* 1979, B 1 (pt 111), p. 29.

[4] Ibid.

[5] *N.Z.P.D.*, Vol. 416, p. 5356.

[6] *N.Z.P.D.*, Vol. 322, p. 253.

they asked, "a newly made law for the member?" The Prime Minister, Walter Nash, asked with some sarcasm whether Marshall might "go to the head of a Department and ask him questions about it."[1]

Even when the actions of the Auditor-General are quite obviously of his own doing, members have attributed those actions to the executive. Thus, having pointed out his discomfort at not having the C and AG's report when writing his Budget speech, Nordmeyer expressed the hope "that the Minister will take steps next year to ensure that the report of the Controller and Auditor-General will be available to Parliament and that he does not bring down his Budget until it is."[2] Two years later, when the C and AG warned hospital board members of their liability for over-expenditure, R.M. Macfarlane labelled it "a very severe method for the Government to use to exercise control in the interests of economy."[3]

K.J. Holyoake, who was Minister-in-Charge of the Audit Department from 1960 to 1972, specifically referred to the Auditor-General as a departmental head on occasion[4] and encouraged the belief amongst members that he could get the Auditor-General to reverse his rulings on specific matters.[5]

And yet on other occasions members, perhaps confused by the C and AG's close ties with Parliament, have spoken of him as being one of their own. In 1979, for example, one M.P. referred to him as "an

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[1] *N.Z.P.D.* Vol. 322, p. 253.

[2] *N.Z.P.D.* Vol. 342, p. 406.

[3] Ibid., Vol. 352, p. 2621.

[4] Ibid., Vol. 374, p. 2604, and Vol. 400, p. 3811.

[5] In 1968, Finlay, the Labour member for Waitakere, complained that the C and AG had refused to allow a hospital board to re-imburse an importer of surgical equipment who had suffered as the result of a devaluation. Holyoake replied that it was only the absence of detail which had prevented him from isolating the particular case and offering help. See *N.Z.P.D.*, Vol. 356, p. 1463.

officer of Parliament ... required to carry responsibilities assigned to him by Parliament."[1] But during the debate on the Parliamentary Powers Bill later that year, K.R. Allen argued that this was not the case and that he was, in fact, a servant of the Crown. The Auditor-General he said

> is not a servant of Parliament and it is unconstitutional to make him one. His very appointment ... requires that he should not be subject to any influence, either by Parliament or anybody else. [2]

That M.P.s cannot come to a consensus over the position of the Auditor-General suggests a degree of confusion as to where he actually stands, and this is a confusion which is not restricted to M.P.s alone.[3] Whether the Auditor-General should be an officer of Parliament or of the Crown is a moot point and it is currently being debated in the United Kingdom. A similar debate could well be a healthy pursuit in New Zealand for the rather confused state of affairs at the moment does nothing for the Auditor-General's independence.

Despite, and perhaps because of, this muddling of the C and AG's status, there is a fierce independent spirit in the Audit Office. Officers will state, quite matter of factly, that they "believe in accountability" and that they are 'watchdogs' for a public which is growing increasingly more restless. The auditors are distinctly professional in their work,[4] aligning themselves as much with private

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[1] *N.Z.P.D.* 1979, p. 1841.

[2] Ibid., p. 2398.

[3] For example, both the Auditor-General and the Solicitor-General were for some time listed as public servants in public service manuals. One permanent head who wrote to the author considered him a "senior public servant" while the *Christchurch Star*, 20 December 1979, referred to the C and AG as a "government officer".

[4] The Office has adopted the auditing standards prescribed by the New Zealand Society of Accountants which, according to one permanent head, assured his department that Audit opinions were unbiased and professionally based.

sector accountants[1] as with the public service. This is encouraged by the small size of the department and the lack of a clearly defined division of labour. Eighty-nine per cent of the Audit staff are auditors, the remainder being administrative staff.

One writer has suggested that independence for the government auditor means the "avoidance of even the appearance of relationships which would suggest a conflict of interest to a reasonable observer".[2] To eschew charges of this nature the Auditor-General has had to position himself apart from the executive. There are other reasons too, not the least of which is that too close an association would destroy his credibility with the Opposition. Since 1960 neither National nor Labour has been so far from the Treasury benches that the C and AG could allow his reserve of good will to run down. Were the government auditor to become no more than a political appointee the audit function would collapse. Permanent heads would regard his judgements with suspicion and his persuasive power would be diminished. If the Opposition at any time suspected a 'conflict of interests' then a change of government would prohibit the achievement of the goals he seeks. It is consequently in the Auditor-General's interests to remain as independent of government as he can.

So, how independent is the Auditor-General? By placing him on a 'co-operation' continuum one can measure the distance between the Auditor and the administration. At the non-co-operative end the C and AG might be seen to isolate himself totally from government. It would

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[1]The present Auditor-General is a fellow of the New Zealand Society of Accountants, while three senior officers have been elected to national committees of that Society. Audit has also an exchange scheme with major private sector firms both in New Zealand and the United Kingdom. See *A.J.H.R.* 1979, B 1 (Pt 111), pp. 32-33.

[2]The Editor (unnamed), "Independence and the Government Auditor," *International Journal of Government Auditing*, 2, 1 (1975), p. 1.

be his aim to make life as difficult as possible for his clients, calling attention to every discrepancy and misdemeanour, refusing governments the opportunity to validate their actions retrospectively, and withholding his department's resources in the design and implementation of financial management and control mechanisms. It was to this type of activity that the Australian Public Accounts Committee referred when it wrote:

> We are impressed by the view of the Auditor-General that he, as the auditing authority, should have no responsibility for laying down accounting systems for statutory corporations. It is difficult for him to exercise the appropriate critical scrutiny of accounting procedures if he is, in the first place, expected to lay down those procedures in detail. [1]

The co-operative end of the spectrum is unbounded. Theoretically, it could involve sinecures and secret dealings but, more realistically, overt measures of co-operation might include waiving the need for retrospective legislation, following ministerial direction, conducting investigations for government members alone, and neglecting to tag false accounts or report adverse comments to Parliament.

The independence of the Auditor-General is therefore a function of his position on the continuum. This will depend on what he considers as consistent with his professional ethics, his view of the importance of the audit function, and the more self-interested motives of achieving policy goals.

New Zealand Auditors-General appear to have adopted varying attitudes over the years, but mostly they have tended towards co-operation with their clients. The extended role brought to the office by its present holder, particularly as regards improving financial management in government departments, has probably increased the amount of co-operation though not its degree. In any case it could not

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[1] Quoted in W.J. Campbell, "The Role of the Auditor-General in Public Administration," *Public Administration* (Sydney), 20 (1961), p. 31.

be said that this has threatened the independence or the objectivity of the audit function. There are a number of ways in which the Audit Office assists both central and local government. Senior officers are periodically attached to departments to act as financial advisers or accountants;[1] on occasion auditors have been left the balancing and drafting of the final accounts of some local authorities;[2] the office has offered to advise catchment authorities with the design of their annual accounts;[3] and it publishes a manual to guide local authorities in their administration and accounting. The suggestion of one Australian Auditor-General that "it would seem a pity if the expertise and knowledge of his officers cannot be available in the development of accounting design and method"[4] has been adopted in New Zealand. Audit has issued a standing invitation to departments to seek its assistance with the implementation of financial control and management systems. The Deputy heads a combined Treasury/Audit team to implement the recommendations of the 1978 review[5] while other officers advise departments on daily financial problems that are referred to them.

6. SUMMARY

There are two aspects to the independence of the Auditor-

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[1] *A.J.H.R.* 1978, B 1 (Pt 111), p. 31. Since 1978 Audit has sent officers to the Ministry of Works and Development and the Departments of Internal Affairs and Scientific and Industrial Research.

[2] See *A.J.H.R.* 1967, B 1 (Pt 11), p. 74. Audit has struggled to rid itself of these duties which it rightly sees as a function of management. McInnes, p. 46, has argued that the auditor's independence is compromised by any activities which relate to book-keeping and ledger maintenance, authorization of payment, and preparation of accounts.

[3] *A.J.H.R.* 1979, B 1 (Pt 111), p. 21.

[4] Campbell, "The Role of the Auditor-General," p. 32.

[5] See above p.76.

General: form and appearance. The form of independence is objectivity, a state of mind derived from personal attributes such as honesty, ability, and professionalism. Since it cannot be guaranteed by rules or legislation, the C and AG must ensure his own independence by not being subordinate to a government and by avoiding relationships which would impair his objectivity. This is a difficult aspect to evaluate since any judgement would be largely subjective. For this reason the evaluation has not been made in this study. Nevertheless, a high degree of professionalism and dedication has been noted and these are good signs.

The appearance of independence is easier to determine since it is a measure of the distance of the audit function from government, assessed in this chapter by five criteria. The question to be answered is: would an objective observer consider the distance sufficient to allow the Audit Office to carry out its duties without interference? Sadly, the commitment to independence by successive governments, expressed through legislation and through the parliamentary debates, has only been half-hearted. The need to establish the appearance of independence has consequently passed to the Auditor-General, with one response being his adoption of the position of an officer of the Crown rather than of Parliament. That the C and AG should not give even the appearance of a conflict of interests is vital if public confidence in the audit function is to be maintained and if the achievement of his policy goals is to be any more than a forlorn hope. Fortunately, this aspect can be promoted through legislation and three changes, in particular, would be worthwhile.

Firstly, there needs to be a rationalisation of the provisions regarding the appointment, salary and dismissal of the C and AG with a view to establishing him on a par with such parliamentary appointments as the Ombudsman. His salary should reflect his semi-judicial functions. Secondly, the rather anomalous position of the Minister-in-Charge should be clarified, so as to remove the division of responsibility which presently exists. With the Auditor-General being *responsible* for his department's actions, yet answerable to the Minister for its finances, there is a diffusion of responsibility which makes accountability difficult, and which could make an increase in the depth of the audit almost impossible. With the measure of Treasury control over Audit's finances which now exists, were it not for the role played by the Minister in the management of Vote Audit, there would be a case for the abolition of ministerial responsibility for the Audit Department. Thirdly, if there is to be any legislative change, it should be effected not through the amending of the Public Finance Act but through the creation of separate, identifiable Audit Act. There would thus be a formal recognition of the independence of the Audit Office which would bring New Zealand into line with the three countries discussed in Chapter Two. Any changes to the audit function envisaged by a government would be immediately recognizable.

Pressure from government will never be as overt as the example cited at the head of this chapter but it may well be that the increased depth of Audit's operations will mean more direct pressure is brought to bear in future. It can be seen that the structures necessary to apply these constraints, whether of a staffing or budgetary nature, are already in place. The third determinant of Audit's effectiveness is the C and AG's ability to communicate his proposals to government and publicise his intentions. Probably the most important aspect of this has been his association with the Public Expenditure Committee and this is examined next.

CHAPTER V

PUBLICATION AND COMMUNICATION

> We use the PEC to prod the government agencies into doing the things that we want done.
>
> \- Deputy C and AG.

It has so far been suggested that factors such as the quality of auditing services employed, their distribution across the public sector, and the degree of freedom from government enjoyed by the auditor in applying them, largely determine the effectiveness of the legislative audit. If, however, government is not responsive to the auditor's proposals then the "fulfillment of his responsibilities, be it ever so impeccable, is largely a fruitless exercise."[1] A third factor, then, may be introduced and that is the ability of the auditor to communicate his criticisms and proposals to the appropriate parts of the administrative structure or otherwise to bring them to public knowledge. How successful the Audit Office is in having illegal and unwise practices rectified or its policy proposals implemented depends largely on what use it makes of the channels of publication and communication that are open to it. For the moment, there are two of these; the presentation of reports to Parliament and relations with the Public Expenditure Committee.

1. THE AUDIT OFFICE AND PARLIAMENT

Something of the process involved in dealing with departmental misdemeanours has already been described in Chapter Three. When

[1] A.C. Shailes, "The Auditor's Responsibility to Parliament," p. 4.

irregularities do occur they are discussed, formally but privately, with the department concerned. It should be noted, however, that the Auditor-General has no formal powers to direct departments, nor can he demand that they action his recommendations. Consequently, while his requests are undoubtedly not treated lightly by the departments, the desired response is not always immediately obtained. If the formal request prove to be insufficient then the informal influence of the 'old boy' network can be brought to bear. The existence of a network of close associations amongst permanent heads and other senior public servants is often dispared of by academics attempting to make some sense of the policy-making process but in the present situation it is an invaluable weapon in the C and AG's armoury. Because of their long and varied associations with departments, particularly through earlier Treasury contacts, New Zealand's Auditors-General have enjoyed considerable prestige and status.[1] Of course the existence of a friendship must not militate against the investigation of a particular department or some aspect of its activities and this is one argument in favour of appointing non-public servants to the position. But such an appointee would lack the necessary contacts which currently give effect to many of the C and AG's proposals.

At the same time, the presence of certain sanctions which the Auditor-General might level against a department serves to reinforce his authority. Of these the power to surcharge[2] for the inability to account for public funds is potentially the most powerful, but for

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[1]For a discussion of how factors such as these affect the authority of the New Zealand Ombudsman, see: Larry B. Hill, "The New Zealand's Ombudsman's Authority System," in L. Cleveland and A.D. Robinson (eds,), *Readings in New Zealand Government* (Wellington: A.H. & A.W. Reed, 1972), pp. 163-179.

[2]Public Finance Act 1977, ss. 30-32.

various reasons, the least used.[1] The power, which enables the C and AG to recover public funds unlawfully used, reflects an earlier concern with legality which is not now so apparent. In any case, since the surcharge has been applied only where there has been deliberate irresponsibility rather than an error of judgement, it does nothing to solve the problem of inefficiency.

Probably the most important of the C and AG's weapons, and undoubtedly his greatest resource, is publicity. Statutory recognition is given to the channel of communication between the Auditor-General and Parliament through the mandatory report on the public accounts and through the provision that he be allowed to report "at any other time".[2] As it was noted in Chapter Three the C and AG usually prepares two reports, one dealing with the public accounts and one with the results of his "value for money" investigations in selected departments, corporations and local authorities.

While the Auditor-General may raise issues in his report for Parliament's consideration, his effectiveness is still largely dependent on the use Parliament makes of them. In the past this has not been very great and for this inactivity the Auditor-General has taken most of the blame. Polaschek, for example, has observed that,

> his almost exclusive interest in the 'correctness' of expenditure limits the general usefulness of his reports. Perhaps, if they were wider in context, they would capture more attention in Parliament. [3]

What this statement fails to recognise, however, is the two-fold purpose of the reports. For not only is the C and AG concerned with

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[1]The power has been a bone of contention with the legal fraternity since the C and AG is both judge and jury for each case. Successive Auditors-General have shied away from surcharging except where the abuse of public funds has been particularly blatant. Such cases have invariably involved motor vehicle accidents or the falsification of travelling expenses claims.

[2]Public Finance Act 1977, s 34 (1).

[3]Polaschek, p. 249.

interpreting and informing Parliament of governmental procedures, he also uses the censure and praise of his reports to further his own ends. Departments do not like comment which reflects unfavourably on them, particularly if they cannot justify their actions to an inquiring Minister. Conversely, comments made by the C and AG are often used by departments when pushing their Ministers for specific policy changes.[1] It is possible that the two aims may, at times, be mutually exclusive. The difficulty lies in achieving a balance between comment sufficiently critical to embarrass but which will not prevent any necessary future co-operation. If, therefore, the C and AG's reports have occasionally appeared mild, this may well be the reason.

In recent years changes have been made to improve the informative aspect of the reports. The second report has been shortened and restructured, for excessive length has been found not to "have a significant impact on busy politicians".[2] The 1979 and 1980 reports have considered a number of more general questions unrelated to specific substantive concerns and an attempt has been made to inform both the politicians and the public on such issues as Audit's view of its constitutional position and the place of the C and AG in the Westminster parliamentary system.[3] In addition, the Auditor-General has engaged the Tourist and Publicity Department to prepare a press kit

to increase the report's visibility. While these developments are welcome, more could undoubtedly be done. For example, it might be useful for the C and AG to replicate a further Canadian practise and devote a section of his report to practises and procedures "weakening parliamentary control". This would highlight such matters which

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[1] Interview with A.C. Shailes, The Audit Office, Wellington, 13 December, 1979.

[2] A.C. Shailes, "The Auditor's Responsibility to Parliament," p. 12.

[3] *A.J.H.R.* 1980, B 1 (Pt 111), pp. 7-9.

had occurred throughout the year, spelling out the implications of government policy, and providing a useful spur to those M.P.s who did not appreciate the full meaning of the C and AG's comments.

That Polaschek's view is incorrect is suggested by a continued lack of parliamentary attention despite the increased reporting of Audit's 'value for money' inquiries. Indeed, Parliament's more cursorial handling of the reports lately suggests that the wider their implications, the less keen a government will be to have them debated. Although the Audit Office could be criticised for sometimes appearing to direct its reports more to the departments than to Parliament, the lack of debate stems largely from a lack of political will to provide a suitable opportunity.[1]

There is no formal debate on the report so discussion is restricted to the annual consideration of the Audit Department's Estimates. In this debate, however, there are limits as to what may or may not be discussed. So that the business of the House is not clogged up by an unexpected and protracted debate and to prevent any general discussion, the report is not fully open for discussion on the Audit Department Vote - "only that portion which can be tied to an item in that vote."[2] A modification of the Standing Orders in 1974, which permitted the discussion of policy matters when the Estimates are taken, did nothing to alter the situation except to allow debate on the policy of the Audit Department. Members have found difficulty with the interpretation of the ruling so that in some years more time has been spent arguing over what may be debated than discussing the

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[1]In Opposition, the Labour Party was critical of the lack of opportunity to discuss the details of the report but made no attempt after 1973 to provide such an occasion in office. See *N.Z.P.D.*, Vol. 374, p. 2602.

[2]New Zealand House of Representatives, *Speaker's Rulings* (Wellington: Government Printer, 1964), p. 94.

Vote.[1] The extent of the debate is consequently determined largely by the Speaker, who, it seems, may well permit a longer debate when the House has little to do. In a quiet period of the 1979 session, for example, he allowed the Members to free-range through the report. But unstructured, and seemingly unprepared, the debate fizzled out to a discussion of Audit's inability to report on the accounts of Air New Zealand. Treatment of this nature had, some ten years earlier, led the *Evening Post* to comment:

> It is not enough for Parliament just to formally acknowledge the report and then pass on to the next business. Or is it sufficient for the Opposition to use material in the report to make an occasional verbal sniper attack on the government benches when the House finds itself at a loose end. 2

With successive governments being unprepared to allow Parliament to fully tackle the report, the essential element of publicity has been largely lost and the desired effect on the departments diminished. Because of the inability of Parliament to give effect to the C and AG's proposals, Audit has sought other, more effective avenues. In particular, there has been a long-standing association with the Public Expenditure Committee which, expecially since 1976, has proved increasingly useful to the Audit Office

2. THE AUDIT OFFICE AND THE PUBLIC EXPENDITURE COMMITTEE

The Public Expenditure Committee is one of the few elements of the parliamentary system which has been examined in any depth by more than one author. Fortunately, through the combined efforts of Egan, Wakelin and Yuill, McRobie, and von Tunzelmann,[3] more is known of the

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[1] *N.Z.P.D.* Vol. 352, pp. 2125-2133; Vol. 379, pp. 1399-1408; Vol. 405, pp. 2143-2144.

[2] "Now to Right the Wrongs," *Evening Post*, 26 July 1969 (Editorial).

[3] J.P. Egan, H.J. Wakelin and J. Yuill, *Parliamentary Control of*

PEC than practically any other aspect of Parliament. The functions of the Committee then may be briefly stated. According to McRobie these are

> to examine Departmental estimates of expenditure, and, after the end of the financial year, to examine the manner in which the appropriation has been applied. [1]

That the Committee has been required to perform both these functions has had important consequences for its effectiveness. These are returned to later.

Prior to the establishment of the PEC the Audit Office had urged its creation through its parliamentary reports. In 1961 the Auditor-General suggested that a committee consisting of members from both sides of the House, who would "put aside party politics and work as a team solely in the interests of the taxpayer",[2] might replace the Public Accounts Committee which had proved an ineffective mechanism for the exercise of parliamentary control. Such a committee, he noted, would be "in a strong position to question the continuance or growth of various classes of expenditure."[3] It is interesting to note that he saw the most beneficial effects being derived from the hitherto untried (at least in New Zealand) notion of select committee scrutiny of the Estimates, rather than through a post expenditure examination which would run parallel to that provided by his Office.

In the following year, Parliament's Standing Orders Committee, after conferring with the C and AG,[4] recommended that a committee be

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Public Expenditure in New Zealand (Wellington: Victoria University of Wellington, 1968), pp. 51-59; McRobie, "Parliamentary Control of Public Expenditure," pp. 115-130 and "The New Zealand Public Expenditure Committee," *Political Science*, 26, 1 (1974), pp. 28-46; Adrienne von Tunzelmann, "Control of Expenditure and the New Zealand Public Expenditure Committee," *The Parliamentarian*, 59, 4 (1978), pp. 221-230.

[1]McRobie, "Parliamentary Control of Public Expenditure," p. 117.

[2]*A.J.H.R.* 1961, B 1 (Pt 11), p. 8.

[3]Ibid.

[4]*A.J.H.R.* 1962, I 17, p. 20.

established with functions broadly similar to the Public Accounts Committee of the House of Commons.[1] In addition to scrutinizing the Estimates it envisaged that such a committee would

> survey the audited accounts and work with the Controller and Auditor-General *as its expert adviser* and conduct ... inquiries ... to ensure that the money appropriated by Parliament is being spent as Parliament intended and that due economy in the expenditure of public money is being observed. 2

It was proposed that the Auditor-General would personally attend PEC meetings, as was the practice of his British counterpart, withdrawing only "when the Estimates were being examined as his presence on that occasion would be inconsistent with his statutory powers."[3] However, despite the formal charging of the PEC to "have regard to matters ... raised in the annual report of the Controller and Auditor-General,"[4] the expected degree of co-operation did not eventuate. Rather, Audit's duties vis-a-vis the Committee amounted to little more than the preparation of papers and the presentation of information when asked to assist the Committee on topics which it had selected. This activity limited the C and AG's role to responding to the initiatives of the PEC and provided little opportunity for the Auditor-General to steer the Committee to those matters which he believed to be important. The situation was slightly ameliorated in 1971 when the then C and AG, K. Gillies, was

> afforded the courtesy of recommending to the Public Expenditure Committee of the House matters ... which they might consider examining. 5

This practice has been continued so that at the end of each parlia-

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[1]*A.J.H.R.* 1962, I 17, p. 20.

[2]Ibid., p. 21 (emphasis added).

[3]Ibid.

[4]*Standing Orders of the House of Representatives Relating to Public Business* (Wellington: Government Printer, 1979), No. 335.

[5]*A.J.H.R.* 1971, B 1 (Pt 111), p. 58

mentary session the Audit Office has prepared a list of subjects for the Committee from which it could choose topics for the recess investigations.

Nevertheless, there remained a lack of on-going co-operation which made the Committee less effective than it might have been. Egan et al., while finding that the association with the C and AG made little difference to whether or not departments adopted the Committee's recommendations, did note that their applicability was closely related to the inclusion or non-inclusion of the C and AG in their formulation.[1] Thus, in those investigations between 1963 and 1967 which the Committee undertook and which did not arise from the Auditor-General's report, some 17.3 per cent were not applicable.[2] In Committee investigations which did arise from that source, however, only 3 per cent fell into that category. For this somewhat ineffective liaison, from both Audit's and the PEC's point of view, the authors blamed the C and AG, saying:

> It seems probably that in New Zealand the Controller and Auditor-General has stressed the accounting technicalities of the various issues raised rather than placing them in a broader perspective. The members of the Public Expenditure Committee are politicians who must have an eye for what is politically important and if the Controller and Auditor-General provides them with arid accountancy it is not surprising if they look elsewhere. [3]

They concluded:

> that the Committee may well benefit from some assistance with its recess activities to facilitate more detailed and careful investigation. [4]

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[1] Egan, et al., p. 56.

[2] Defined by the authors as investigations where the recommendation of the committee had been forestalled by agency action, or where a misreading of the situation had already led the PEC to make a recommendation which was already operating. Ibid., p. 55.

[3] Ibid., p. 53.

[4] Ibid., p. 57.

The reform of these matters began in March 1976 following the combined appointments of a particularly active C and AG, A.C. Shailes, and a zealous PEC chairman, W.F. Birch. The Auditor-General delegated a middle ranking officer to liaise with the Committee while in this and the following year another officer occasionally attended sub-committee meetings to provide advice for the formulation of recommendations and reports.[1] In 1978 the situation was further improved by the releasing of a junior Audit Officer to undertake research for the Committee. Although seconded to the Committee and responsible to the Clerk of the House while Parliament is sitting, the Research Officer has continued to have access to Audit files and senior Audit staff to obtain information and advice. In addition, Audit servicing of the PEC now involves, on occasion, the secondment of officers to assist with specific inquiries and the preparation of reports when requested[2] while senior officers attend Committee meetings to assist with the examination of matters arising from the C and AG's reports.[3] Although these officers cannot directly question departmental staff their counsel has proved valuable to the Committee, particularly through their ability to verify departmental responses and prevent departments misleading the PEC. Finally, while the deputy Auditor-General has been a frequent visitor to the Committee, the Auditor-General himself has lately attended the PEC on an annual basis "to discuss with the members those matters in my reports which I consider they could usefully examine."[4]

All this has greatly improved the liaison, with important consequences for the effectiveness of the PEC and consequently the

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[1]From information provided by A.F. von Tunzelmann, Advisory Officer to the Public Expenditure Committee, October 1979.

[2]See *A.J.H.R.* 1977, I 12, p. 16; and 1978, I 12, p. 25.

[3]A.C. Shailes, "The Auditor's Responsibility to Parliament," p. 9.

[4]Ibid.

effectiveness of the audit function. Significantly, the formalisation of links has greatly increased Audit's involvement in the day to day affairs of the PEC. Although this does not mean that the Office directs or controls the Committee it has ensured that Audit's viewpoint is always known and that it is fed to the PEC at the appropriate times and in the appropriate manner. While Audit cannot demand that certain subjects be examined by the Committee (for the PEC decides its own work programme) it does enjoy considerably greater *influence* than in the 1960s through its ability to identify, define and propose those subjects. Although it could not be said that the C and AG now initiates PEC activity anymore than he did in the past (through expressing concern in his report) his power to limit their action alternatives has grown markedly.

In practise this has meant that the proportion of PEC investigations arising from the Auditor-General's report has changed little since 1976 (see Table 5.1). However the tone of the PEC's recommendations has altered and their number increased. Between 1962 and 1975, two thirds (52 of 78) of the investigations undertaken by the Committee included recommendations for improvements, whereas in the period 1976 to 1979 the proportion increased to nearly three quarters (14 of 19) of the total number of investigations. Also, the involvement of the Audit Office in assisting in the formulation of recommendations has meant far fewer have been irrelevant or forestalled by the departments in some way.

Furthermore, there has been a significant change in the nature of the PEC's recommendations. Throughout the early 1970s these tended to be non-specific and allowed government considerable latitude in their implementation. Thus, for example, the Committee recommended that:

TABLE 5.1

Sources of PEC Investigations, 1962 - 1979

Probable Source	1962-1975 Number	1962-1975 Percentage	1976-1979 Number	1976-1979 Percentage
C and AG	48	61.5	13	65.0
PEC initiative (usually arising from members' interests)	21	26.9	6	30.0
Outgrowth of earlier investigation	5	6.4	-	-
Outgrowth of public interest	3	3.9	1	5.0
Recognition of topic previously examined	1	1.3	-	-
TOTAL	78	100.0	20	100.0

Source: Adapted from McRobie, "Parliamentary Control of Public Expenditure," p. 122; *A.J.H.R.* 1976, I 12 and 12a; 1977, I 12 and 12a; 1978, I 12, a, b; 1979; I 12, a, b, c.

- central and local government should play a more positive role in ensuring that those eligible to vote are enrolled. [1]

- the linen flax industry should be allowed to continue to develop not only for existing uses but to maintain research ... [2]

- consideration be given to making some changes in catchment board administration, particularly in the determination of staff establishments and salary scales. [3]

Since 1976, however, there has been a noticable trend towards more specific recommendations, making it more difficult for departments to evade implementing proposals and easing the difficult task of 'following-up' recommendations to ensure compliance. Although it is difficult to obtain reliable data as to the extent of compliance, it

[1] *A.J.H.R.* 1970, I 12, p. 19.

[2] *A.J.H.R.* 1971, I 12, p. 25.

[3] *A.J.H.R.* 1973, I 12, p. 26.

is significant that in 1976, recommendations from eight years before still awaited action while in 1979 arrears had been cleared to 1975.

The extent to which these developments can be attributed to the involvement of the Audit Office or to the strengthening of the Committee itself (especially through the strong chairmanship since 1976) is difficult to determine. McRobie[1] has demonstrated the effects of strong chairmanship on the degree of compliance from 1963 to 1966 and it is interesting to note that the Committee's recommendations from that period do exhibit a specificity not seen again until 1976. The claim that "any select committee given the task of examining the economy and efficiency of a government is probably only as good as its personnel,"[2] therefore seems justified. The abilities of individual members should not be overlooked. However, whether the committee could have achieved its present level of expertise without the Audit Office is highly unlikely. It is interesting to note that while the language of PPB has formed part of the government's finance structure since the early 1970s, it has become pronounced in the PEC's reports only since 1978. Thus, more recent solutions offered by the committee have tended to reflect those which might have been expected from the Audit Office. For example, it has been suggested that:

> - budgets be established for each cost centre, which should be set up for each function, location of workshop, and machine group. 3
>
> - the Government Printing Office operate on a 'revolving funds' basis. 4
>
> - an independent project evaluation body be established to undertake progressive reviews of aid projects. 5

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[1]McRobie, "The New Zealand Public Expenditure Committee," p. 36.

[2]Ibid., p. 45.

[3]*A.J.H.R.* 1979, I 12, p. 5.

[4]Ibid.

[5]*A.J.H.R.* 1978, I 12, p. 29.

> - a resource management advisory service be established ... to assist hospital boards in improving administration in ... personnel management, financial management, service planning, capital programming, planning and control and management audit. [1]

Finally, one aspect of the Committee's activity since 1976 which has mirrored the increasing depth of the Audit approach has been its comprehensive examination of selected departments to determine weaknesses in controls over efficiency. While, the first such review after the fall of the Labour Government "was undoubtedly a witchhunt directed towards exposing the defeated Government's alleged financial mismanagement"[2] the reviews have now become a permanent feature of the PEC's full committee activity, with seven being completed in four years. With the onus resting with the Audit Office to point out to the Committee likely targets for these reviews[3] the opportunities for having the C and AG's criticisms of departments rectified have been considerably increased. In 1978 and 1979 the PEC considered the report of the Audit Office on financial management in administrative government departments and the extent to which the Auditor-General's recommendations had been implemented. The Committee has been generally sympathetic to the need for improvements in financial management and in 1979 gave its approval to two schemes designed to 'let the managers manage'; a bulk financial allocation system in the Customs Department[4] and the use of 'revolving funds' in the Department of Maori Affairs.[5]

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[1] *A.J.H.R.* 1977, I 12, p. 15.

[2] McRobie, "Parliamentary Control of Public Expenditure,", p. 123.

[3] *A.J.H.R.* 1977, I 12, p. 19.

[4] This is a practical application of the concept of accountable management. It encourages entreprenurial management by allowing managers to determine resource use within a lump sum budget constraint. See *A.J.H.R.* 1979, I 12, p. 8 and 1978, B 1 (Pt IV), p.

[5] These are separate funds through which receipts from continuing operations are used by management to finance operating expenditure. This provides flexibility by removing the requirement for annual

Because of the involvement of the PEC in these matters, Audit is assured that its recommendations do not stop with the publication of its report and that pressure on the government to effect improvements continues to be applied.

Together these developments have enhanced Audit's persuasive power. Of course Audit's use of the Committee has been dependent on the willingness of its members to be used but the benefits for the PEC, in terms of expert advice, information and increased effectiveness, have meant that its co-operation has been readily procured. There are occasional disagreements[1] but largely the association has been a fruitful one.

Nevertheless, the relationship has not been without its problems. Despite its elevation and refinement in recent years there remain significant impediments to the development of its full potential. Of these, the political nature of the Committee's work is undoubtedly one of the most important. The PEC has usually worked in a fairly non-partisan manner and has aligned itself more with Parliament than with the government of the day. Its findings have not always endeared it to successive governments who have not been keen to debate its reports. According to McRobie, the workload of the Committee has proved so onerous that the reports are often not finalised or tabled until late in the parliamentary session with the result that there is no time for a debate.[2] To some extent then, the publicity necessary to give effect to its recommendations has been much less than it would have desired. Furthermore, the lack of publicity has only increased the opportunities for governments to defer implementing the PEC's recommendations. Annually the Treasury

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appropriation of expenditure. *A.J.H.R.* 1978, B 1 (Pt IV), p. 28; see also 1979, I 12, p. 8.

[1]See *A.J.H.R.* 1978, B 1 (Pt 111), p. 20.

[2]McRobie, "The New Zealand Public Expenditure Committee," p. 36.

prepares a list of agency responses to the Committee's proposals but this has proved of only marginal use since "little ... detail is included as to why recommendations might have been delayed or modified in implementation or rejected."[1] There is a need for greater follow-up of the recommendations since a lack of staff has prevented the PEC from doing this itself. With no formal requirement for the Committee's recommendations to be implemented, its effectiveness and, thereby, that of the C and AG, has depended largely on the co-operation and goodwill of the agencies concerned.

A second constraint, but one which is closely tied to the question of follow-up, has been the lack of staff resources available to the Committee. Because of the PEC's heavy workload, with both Estimates scrutiny and post-expenditure reviews being its responsibility, this problem has become particularly acute. When the matter was raised in 1971, Treasury's response was predictable.

> ... it would be difficult for the public service to provide the Public Expenditure Committee with suitable qualified investigating staff without further affecting the quality of the management accounting services required by departments ... The Committee could, however, consider the employment of consultants to carry out the investigation work. The cost of this could be relatively high. [2]

A more thorough analysis of the problem was undertaken by a subcommittee in 1979 and an interim report prepared. While the PEC's views have therefore not been finally stated it did indicate its desire to see "a level of staffing on the lines of the resources available to the investigatory committees of the British House of Commons."[3] It is noteworthy that the PEC did not see a greater reliance on the Audit Office as being the solution to the problem

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[1] von Tunzelmann, p. 226.

[2] *A.J.H.R.* 1971, I 12, p. 33.

[3] *A.J.H.R.* 1979, I 12, p. 17.

but rather desired such a reliance as part of an overall increase in administrative and specialist staff. Equipped in this way, the report suggested, the Committee could well take on the 'follow-up' task itself.[1] Of all the Committee's work, however, the element of follow-up is one aspect where it could well seek Audit's assistance. The Auditor-General's ability to examine any aspect of departmental activity would place him in an excellent position to advise the PEC of the tardy implementation of its proposals.[2] With the provision of an expert evaluation of departmental responses to the Committee it would be in a far stronger position to urge compliance or 'hurry-up' the laggards.

Thirdly, and perhaps the most important constraint for the future of the Audit-PEC relationship, is the inability of the Committee to consider policy matters. The difficulties in this area faced by the Auditor-General (outlined in Chapter Three) have been duplicated with the PEC. Thus, according to von Tunzelmann,

> difficulty is sometimes experienced in distinguishing the methods by which a policy decision is reached or implemented in the administrative process from the policy itself. [3]

For the moment this has proved less of a constraint with both Audit and the PEC being prohibited from policy considerations. The relationship is consequently balanced with neither body being appreciably stronger than the other.[4] It has already been noted that with the expansion of the audit role there was a corresponding increase in

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[1] *A.J.H.R.* 1979, I 12, p. 17.

[2] For an example of the possibilities inherent in this approach see the comment of the Auditor-General after his office initiated a 'follow-up' for one PEC investigation in 1978. *A.J.H.R.* 1978, B 1 (pt 111), p. 20.

[3] von Tunzelmann, p. 228. For an example of how the Committee has dealt with this policy/non-policy distinction, see *A.J.H.R.* 1979, I 12c, p. 3.

[4] The uncertainty of this distinction noted above with respect to the C and AG can, of course, be used by the PEC to its advantage as well. See, for example, the comments and behaviour of R.D. Muldoon, noted in McRobie, "The New Zealand Public Expenditure Committee," p. 33.

the activity of the PEC to examine departmental controls over efficiency and economy and this was achieved without altering the Committee's formal mandate. As the Audit Office increases the depth of its audit to include effectiveness reviews it will be interesting to see whether the Committee will be able to include similar activities *within* its present mandate. Since this type of review could very easily lead to the questioning of the validity of programme objectives, the Committee could well find itself increasingly frustrated by its inability to discuss policy matters. The permitting of this type of debate however would create an imbalance with the powers of the Audit Office and any resulting tensions could well detract from the effectiveness of the relationship.

3. SUMMARY

The inability of Parliament to generate the degree of publicity and public awareness which would force a government to pay heed to the Auditor-General's recommendations has necessitated a more effective means of ensuring that this occurs. Consequently, the C and AG has for some time attempted to effect a liaison with the Public Expenditure Committee which would provide this publicity. With the improvement of this relationship since 1976, following a period of only minimal co-operation, benefits have accrued to both bodies. For Audit, the PEC's post-expenditure investigations have enabled it to continue to push for the policy and departmental changes it desires long after they have been initially put before government, while "the publicity which is given to any weaknesses exposed does provide a useful check on the actions of both a government and its departments."[1] Nevertheless, there remain considerable impediments

[1] McRobie, "Parliamentary Control of Public Expenditure," p. 123.

to the effectiveness of the Committee and thus to the Audit Office. The PEC's reports are seldom debated in Parliament; there is no requirement that its proposals be implemented; it is prohibited from discussing government policy; it is overworked, and understaffed, and unable to effectively follow-up its recommendations once they are made. Greater involvement of the Audit Office in evaluating the extent of follow-up would undoubtedly assist the Committee. More usefully, the Committee could give up the rather ineffectual Estimates exercises[1] to another committee, leaving it to concentrate on work of a mainly post-expenditure nature.[2] This suggestion is returned to in the following chapter.

With these constraints limiting the usefulness of the PEC and Parliament's inability to provide publicity it is not surprising that Audit has sought to open more direct and effective channels to government. The Auditor-General has recently intimated that the private sector concept of the 'audit committee'[3] could be adapted for use in this respect.[4] In 1979, he was invited to discuss and explain his reports to three senior Ministers, a development which proved sufficiently successful to prompt the suggestion that in future he would, himself, initiate similar meetings with small government and opposition groups.[5] Undoubtedly, this would greatly increase the opportunities to persuasively present Audit's criticisms

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[1]McRobie, "Parliamentary Control of Public Expenditure," pp. 118-121.

[2]See, for Audit's view on this matter, A.C. Shailes, "The Auditor's Responsibility to Parliament," pp. 20-21.

[3]"An audit committee is a sub-committee of the board of directors which works closely with the auditors (both internal and external) and management of an enterprise ... with a view to improving the corporate procedure for financial reporting." M.E. Bradbury, "Audit Committees," *The Accountants' Journal*, 58 (1979), pp. 430-431.

[4]A.C. Shailes, "The Auditor's Responsibility to Parliament," pp. 19-20.

[5]Ibid., p. 20.

and proposals to government and should be welcomed on these grounds. However, this solution to the problem of communication, while pragmatic, does have two inherent dangers. One is that, through its sustained use, the 'Audit Committee' might lead to the by-passing of Parliament altogether, with the result that it might cease to become the focus of the audit function. The other is that, while the form of independence of the auditor might remain absolutely impeccable, the apparent distance of the audit function from government would be considerably reduced. As the previous chapter indicated this apsect needs to be extended rather than diminished. In order to maintain this type of independence and to prevent charges of inconsistency between government and opposition, it would be desirable for the Audit Office to consult with both groups simultaneously. The 'Audit Committee' as a small, high-powered, but bi-partisan group, where full and frank discussion could take place, would probably be the most effective link possible with Parliament.

CHAPTER VI

CONCLUSION

> The optimum effect of any steps taken towards better financial management will not be achieved until Parliament itself has improved its control over the management of the revenue and spending of the country.
>
> - C and AG.

The audit function in New Zealand is going through a process of change. Its current status and its future position in the political system appear to be more ambivalent than at any other time in its history. This study has documented the changing nature of Audit's work but it has alluded to the reasons for this only briefly. What is to be made of this ambivalence, and what has caused it, needs to be explained. More importantly, one must consider what it means in terms of the problem of accountability and efficiency. It has been, after all, the principal objective of this study to examine Audit's ability to provide solutions to the problem of how governments and their advisors can be held accountable, not only for the legality of their actions, but also for the wisdom of their decisions and for how well they manage the scarce resources with which they are entrusted. It is appropriate, therefore, to consider whether the audit function is, as the deputy C and AG put it, a cornerstone of democracy; how appropriate the expanded Audit role will be to the needs of the public sector; and what its consequences might be for parliamentary 'control' of public expenditure.

The Changing Nature of the Audit Function.

To account for Audit's present concern for efficiency and financial management it is useful to consider some contending notions of how public expenditure is controlled.[1] Four such notions may be identified. Firstly, in most of the Westminster based parliamentary systems there has been a traditional concern for regularity and *legality* in expenditure which has found expression in the notion that the legislature should set and enforce limits for public spending. This has involved a budgetary process which includes legislative approval of spending plans as well as strict control over the issue of public funds and a post-expenditure audit. Secondly, associated with the increasingly wide range of activities taken on by modern governments, there has been a greater need to ensure efficient and economical administration which has led to a concern for expenditure control in terms of its effective *management*. Thirdly, the defects inherent in merely evaluating expenditure after it has occurred have caused greater interest to be taken of procedures for *planning* future spending, and fourthly, there has been a greater need to control the *allocation* of resources between competing national priorities, directing resources to where they will be used most effectively and cutting out programmes which do not achieve their objectives. This last phase has made particular use of such techniques as cost-benefit analysis and programme analysis and evaluation.

The four aspects of control are, of course, related. New Zealand, along with other developed countries, was preoccupied with the traditional legal aspects of control, at least until the 1960s where this study has its starting point. The inability of these mechanisms to cope with vastly increased budgets resulted in moves to

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[1]This description is derived largely from Peter Else, "New Developments in Budgetary Decision-Making: A Review," in David Coombes, pp. 339-364.

transform the budgetary process and shift the focus of control from legality to management. McCarthy's emphasis on efficiency,[1] and the subsequent creation of the SSC, the placing of responsibility for efficiency with departmental heads, the upgrading of the Public Expenditure Committee, and the use of Cabinet Committees to grapple exclusively with state spending can all be seen as part of this transformation. In addition, recognition that public expenditure was being used as a tool of short-term economic management and lacked any long-range vision, spawned an interest in the planning phase of control. Again, the Public Expenditure Committee's pre-expenditure estimates scrutiny may be cited as an example, but more important in this regard were the activities of Treasury, particularly the setting up of COPE. Finally, with regard to the fourth aspect of control, the introduction of the PPB package may be seen as an attempt to make judgements as to the value of discrete government activities and to allocate expenditure according to a rational and pre-determined set of criteria.

For all these changes, it would appear that the aspect most valued by the administration was the emphasis on planning embodied in the COPE procedures. As it has been shown, the theoretical soundness of PPB broke down with its implementation and the amount of programme analysis undertaken has not been great. Similarly, the Auditor-General's criticisms of the quality of financial management suggest that the concern for efficiency, although embodied in a number of institutional changes, did not work out well in practice, while the commitment to the management of expenditure as a control device has only been half-hearted both at the administrative and political levels.

Similarly, the transition from an emphasis on legality to one on management has not been complete. Aspects of the first remain -

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[1]McCarthy, pp. 28-35.

through bureaucratic hesitance to change or because there has been a lack of political will to enforce change - and this has hindered the effective exercise of management oriented control. So the achievement of the efficient management of resources has been handicapped by a diffusion of responsibility for departmental efficiency; by the undervaluing of the role of the financial manager by the control departments and by some permanent heads; by a lack of appropriate procedures to hold managers accountable for their actions; by parliamentary procedures structured around the Estimates and the Public Accounts and designed to provide information on misappropriation rather than mismanagement; and, most importantly, by the requirement that permanent heads manage their department's finances within the restraints of restrictive spending delegations and the need to justify expenditure to 'control' departments.

Just as the expenditure process has been transformed, therefore, so too has the role of the Audit Office. It is less concerned with the legality of spending than it was fifteen years ago with the emphasis now being placed on effective expenditure management. Thus, the simple financial audit no longer has financial rectitude as its prime objective, analytical auditing techniques have been instituted to test the ability of systems to control expenditure rather than meticulously checking individual transactions, the power to surcharge is hardly ever used, and the degree of control over disbursements has been considerably weakened. Crucially, through its increased interaction with actors such as the PEC, the SSC and Treasury, Audit has moved much closer to the centre of the political process. It is an influential participant, if its success in achieving policy goals may be taken as a guide, with a view of how the control process should be structured and of the responsibilities of the other actors within it. In brief, the functions of the Audit Office may be seen as promoting the transition from the first to the second phase of expenditure control, urging that the bureaucracy and the politicians make the necessary changes, and reporting to Parliament when they do not.

The Audit Role and Accountability

Whether Audit is succeeding in performing both its 'ginger group' role and its role in the process of securing governmental accountability is still open to question. This study has considered only three factors; the breadth and depth of the C and AG's audit, his independence from government, and his ability to publicise and communicate his findings to Parliament and the PEC. Although, undoubtedly, these are important factors (publication, for example, may be regarded as the *sine qua non* of the audit function) it would also be useful to consider how factors such as the office's organization and structure, and the quality of its personnel, affect its ability to carry out its duties. Future studies of government auditing might consider these matters as well as providing answers to such questions as what the effects of computer technology will be for accountability or why it is that the departments accept or reject the Auditor-General's proposals.

For the Audit Office the most pressing problem, apart from trying to clear up the conceptual difficulties that surround the C and AG's status and position, will be how to further extend the comprehensive audit given its present staffing constraints. Considering Audit's difficulties with the SSC, there would be some merit in following Canadian practise and making the Auditor-General a separate employer, although one suspects that such wholesale changes will not come about in New Zealand until prevailing norms about the value of oversight through 'control' departments are altered. Instead, despite its many drawbacks, probably the most effective solution to the staffing problem would be to release a large proportion of local body accounts to the private sector.[1] Although the lack of requisite skills in the private sector would initially need to be overcome through the use of Audit expertise in training programmes, the auditors would eventually be released from local body work to undertake efficiency and effectiveness evaluations of whatever scale was desired.

But the question of whether the Audit Office does ensure governmental accountability, if only the fiscal accountability of a legal conception of control, is something for which this study cannot provide an answer because the precise effect of the audit function cannot be measured. It should be clear by now that accountability is not simply the exposure of acts that contravene the law, or of incompetence, for this would be an impossible ideal to attain. Rather it is the possibility of exposure which is important; the conception in the mind of the bureaucrat and the Minister of being 'found out' to such a degree that illegal or imprudent behaviour is deterred. The power of anticipated reactions therefore is the strongest weapon for ensuring accountability. Or, as Lipson put it, "the value of the office lies not so much in the detection of little faults, but in the prevention of the bigger frauds which might occur if it did not exist."[2]

It is when the chances of being 'found out' are minimal that effective accountability ceases. The problem is therefore raised of how to ensure that the Audit Office does do its job honestly. If the auditor guards the public purse, one must face the question of who

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[1]The Auditor-General has already indicated that such procedures will commence in 1980. See *A.J.H.R.* 1980, B 1 (Pt 111), p. 24.

[2]Lipson, p. 327.

guards him. For the individual auditor there is a system of peer review which, although not set up to keep the Audit staff honest, would undoubtedly have that effect. But the greatest danger to the effectiveness of the audit function would lie with an Auditor-General turning a blind eye to administrative incompetence either through the existence of a personal relationship or because of his political beliefs.[1] It goes without saying that a C and AG could similarly make life very difficult for a programme to which he was ideologically opposed. Such problems, of course, are not unique to the audit function. As with all civil servants there may be tensions between personal beliefs and professional ethics. What is ironical is that, in a position so concerned with accountability there is, in fact, very little. It might be useful, as Cutt suggests in another context,[2] for the Office's activities to be periodically checked by a body such as the PEC, if necessary, employing private sector assistance.

It is an irony too that despite Audit's independence from the bureaucracy, public confidence in the audit function derives from the concept of the neutrality of the public official. More than anything else, the ability of Audit to perform as one of democracy's cornerstones depends on a common trust in its impartiality and integrity. Moves to fortify that trust - such as the clarification of Audit's constitutional position,[3] a rationalisation of the conditions surrounding the C and AG's status and appointment, and the enactment of separate audit legislation - would be welcome additions to the attempt to improve Audit's overall effectiveness.

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[1] It is not the author's intention to question the integrity or honesty of any of New Zealand's Auditors-General. The possibility of a corrupt C and AG is raised only for a discussion of the theoretical issues involved.

[2] Cutt, p. 232.

[3] These have already begun. See *A.J.H.R.* 1980, B 1 (Pt 111), p.7.

The Audit Role and Efficiency

There is the further question of whether the new role taken up by Audit is appropriate to the needs of the public sector. In an earlier chapter it was suggested that there is a need for an organization to take charge of the problem of departmental efficiency since the old mechanisms had proved deficient. In Australia similar problems caused the Auditor-General to add a broadly defined efficiency audit to his functions but this has not occurred in New Zealand, where such matters have been left to Treasury and the SSC. Rather, Audit has adopted a more limited conception of efficiency and effectiveness auditing, which has recognised the constraints of staffing, the as yet unsolved conceptual difficulties, and the limits of its expertise.

Because of this definition, individual programmes are not evaluated for their efficiency or effectiveness, although Audit's selective testing of departmental controls over the 3Es will undoubtedly work with much the same effect as the threat of exposure has for accountability. Certainly, the Auditor-General is in a good position to carry out the comprehensive audit successfully. He already has access to the departments, he enjoys considerable prestige, his duties are unencumbered by personnel considerations as are those of the SSC, and he has an accepted interest in efficiency through his current value for money investigations. Undoubtedly, then, the departments will be faced with a continued questionning of their efficiency, even if the programmes they administer come in for little objective assessment by specialist, independent analysts. The tragedy is - and this is suggested by the evidence in Chapter One - that this is the public sector's greater need: Treasury's PAE unit has yet to be established, neither the Prime Minister's advisory group[1] nor his department measure programme effectiveness (as in Australia), the Cabinet Expenditure Committee is more concerned with management than with analysis, and only four of the thirty administrative departments regularly assess their own performance. While the provision of a full-scale efficiency audit would therefore be very beneficial, the difficulties encountered with Audit's present expansion suggest that such an audit will not be easily or quickly set up. What would be required before these audits could begin is a clear and unequivocal commitment to them by government. Considering their potentially embarrassing consequences that commitment would almost certainly be withheld.

The Audit Role and Parliament

Finally, it is worth considering the impact of the expanded role on Parliament. It is generally acknowledged that the influence of this body with respect to public expenditure is weak in comparison to that of the executive. It could now be questioned whether the increased activity of the Audit Office, in association with the Public Expenditure Committee, would be sufficient to redress the balance and revive Parliament's control of the purse. One suspects, however, that this will not happen and there are three reasons why. Firstly, there are problems of size and inclination. A high level of activity on Audit's part would generate a large number of reports which would, inevitably, be tabled in Parliament. Since the PEC would be unable to cope with very many of these in a year, especially with such a small support staff, it must be questioned whether Parliament could

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[1] J.G. Boston, *High Level Advisory Groups in Central Government* Unpublished M.A. Thesis in Political Science, University of Canterbury, 1980, p.32.

itself deal with the overflow, or even whether it would want to. British experience with an annual Public Expenditure White Paper has revealed a debate of a generally poor quality[1] with little salience for publicity-oriented M.P.s. Secondly, it must be accepted that changes in institutional arrangements usually involve alterations in the distribution of power between political actors. Thus, although the Auditor-General is undoubtedly right in demanding that Parliament upgrade its procedures for expenditure control, no change will come about unless governments deem it in their interests to allow it. For Audit's activities to be used most effectively in the interests of the House there would need to be changes to the PEC and to parliamentary procedure. It would be useful, for example, to assign the estimates and post-expenditure control functions of the PEC to separate committees and appoint an Opposition chairman to the latter. When these committees' reports reached the House they could be automatically debated along with the C and AG's annual report, and ideally, the COPE forecasts. Unfortunately, as with PPB, such reforms are invariably forestalled by a political response when their implications for the distribution of power become apparent. Thirdly, account must be taken of the restrictive attitudes to legislative scrutiny of the executive which were noted in an earlier chapter. It will not be until these attitudes disappear that the most will be able to be made of Audit's capabilities.

Profound changes will not occur in the machinery of government if they threaten even the perceived distribution of power. Thus, the expansion of Audit's activities has taken place slowly and quietly. It has not been possible to employ a full-scale efficiency

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[1] Robinson, pp. 27-30.

and effectiveness audit, as in Australia, because there has been no public commitment by government to this end. It should be noted, however, that it was public opinion which demanded this commitment following the report of the RCAGA. This is not to suggest that a Royal Commission on government administration should be set up in New Zealand (although, undoubtedly, such an investigation would be timely) but rather that the trust which is publicly held in the Audit Office should be utilised to achieve its goals. The Office could undertake two programmes. The first would be to establish an independent committee to review, as in Canada, the Auditor-General's responsibilities, duties and procedures and to present the committee's findings as a special report to Parliament. That the Audit Office favours such a committee has already been indicated in the C and AG's 1980 report.[1] Secondly, it would be useful for Audit to explicitly state its own view of such matters as the problem of accountability and efficiency, its constitutional position, and its future role, outlining possible solutions and the responses it could make. Again, presentation of this information to Parliament would assist in clarifying the Audit role, for government, the administration, and for the public.

The effectiveness of Audit's new role will increase slowly as the appropriate analytical skills and personnel are acquired, as the public service learns to accept the comprehensive audit and as governments are made more aware of the value of an efficient public sector. Since the advance beyond regularity to efficiency and programme auditing, of whatever definition, implies more questions being asked of government, more accusing fingers being pointed at government, and greater accountability from programmes and policies, governments

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[1] *A.J.H.R.* 1980, B 1 (Pt 111), p. 34.

will have to be convinced of the worth of these ideas. As both political parties have steered clear of reforms that would cause a devolution of their own power, the likelihood of a more effective audit function will be diminished unless public opinion demands that it increase.

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