

**Role of the Auditor General in Public Accountability  
– Some Issues**

by  
**Bronwynn Adamson Nosworthy**

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**ROLE OF THE AUDITOR-GENERAL IN PUBLIC ACCOUNTABILITY - SOME ISSUES**

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A dissertation submitted in partial fulfilment of the requirements for the degree of Master of  
Economics at the University of New England.

August 1990

**CERTIFICATION**

I certify that the substance of this dissertation has not already been submitted for any degree and is not being currently submitted for any other degree. I certify that the sources of information used in preparing this dissertation have been acknowledged in this dissertation.

Bronwynn A Nosworthy

## **ABSTRACT**

This research seeks to examine the issue of lack of staff resources within the office of the Auditor-General of NSW, with reference to the Australian Audit Office (AAO).

In particular, the lack of staff resources and the implications given the changes which have occurred since the 1970's, when 'efficiency audit' responsibilities were introduced into public sector auditing, are examined.

The present responsibilities to conduct not only regularity/compliance audits but also efficiency audits, coupled with the increasing complexities within the public sector, have placed significant pressure upon the staff resources within the offices of the Auditor's-General.

The intention of the research is to provide empirical evidence of these changes on the utilization of staff resources.

The Auditor-General, now, has responsibility for the conduct of firstly, regularity/compliance audits, which are required by mandate and, secondly, efficiency audits, which are left to the discretion of the Auditor-General. The latter are expected because these audits result in more achievements in the process of accountability via special reports made to Parliament.

With these changes many problems have intensified. These include:

- 1) increased workloads due to the wider charter accompanied by less relative resources,
- 2) loss of staff resources to the private sector and other government departments,
- 3) the ambiguous relationship between the Auditor-General and the executive government. The executive government is a client of the Auditor-General's, but also determines funding levels,
- 4) lack of public awareness of the importance of government auditing,
- 5) little agreement with what efficiency auditing actually means, as this is not defined by the Act.

Restraints placed upon the Auditor-General by the government, by way of budgets, are not designed to restrain the independence of the Auditor-General, but do so in reality.

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August 1990

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## **GLOSSARY OF TERMS**

For the context of this study, the following terms are defined.

`..."**Accountability**" means the responsibility to provide information to enable users to make informal judgements about the "performance", "financial position", "financing and investing" and "**Compliance**" of the reporting entity...' further, `..."**Compliance**" means adherence to statutory requirements or any regulations, rules, ordinances or directives of a financial nature governing a reporting entities operations....'

`..."**Financial Position**" means the economic condition of a reporting entity, having regard to its control over economic resources, financial, structure, capacity for adaptation and solvency...'!

`..."**Financing and Investing**" means those activities of a reporting entity that relate to the financing of its operations and the investment of its resources...

`..."**Performance**" means the proficiency of a reporting entity in acquiring resources economically and using those resources efficiently and effectively in achieving specified objectives.'

**Source:** AARF, `Objectives of Financial Reporting", ED42A Proposed Statement of Accounting Concept, AARF, Melbourne, 1987.

"**Comprehensive auditing**" is aimed at systematically reviewing and reporting on accountability relationships and on the supporting activities, systems and controls employed by management in fulfilling its responsibilities.

The comprehensive audit mandate encompasses both regularity and performance auditing.

The three major aspects are

- i) financial and compliance auditing (regularity),
- ii) auditing for efficiency and economy; and
- iii) performance auditing.

"**Effectiveness**" is concerned with the relationship between purpose and result...efficiency involved additionally, a consideration of the resources used in achieving the result. A programme is efficient only if its effectiveness is achieved with an economic use of resources....

"**Efficiency**" is therefore concerned with the relationship between resources used and results achieved between 'input' and 'output'. It comprehends both economy and in this sense effectiveness.

**Source:** Royal Commission on Australian Government Administration (RCA GA), AGPS, Canberra, 1976, para 3.1.4.

An "**efficiency audit**" is an examination of the function, operations and procedures for the purposes of forming an Opinion concerning the extent to which operations are being carried out in an economical and efficient manner.

**Source:** Audit Act 1901 incorporating all amendments by legislation to 31 January 1987, Section 2(4) and (5).

A "**performance audit**" is the audit of the economy, efficiency and effectiveness with which the audited entity uses its resources in carrying out its responsibilities.

**Source:** Glynn, J J, `The Development of Performance Auditing in Australia', Sydney, September 1987, p 4.

"**Regularity/compliance auditing**" is the attestation of the financial accountability of government administration and other government agencies.

**Source:** Auditor-General Annual Report of AAO 1988-89, p 11.

## **CHAPTER 1**

### **INTRODUCTION AND OBJECTIVES**

- 1.1** INTRODUCTION
- 1.2** THE PROBLEM
- 1.3** KEY CONCEPTS
- 1.4** THE SIGNIFICANCE OF THE PROBLEM
- 1.5** RESEARCH QUESTIONS
- 1.6** RESEARCH METHODOLOGY AND STATISTICAL ANALYSIS
- 1.7** TENTATIVE CONCLUSIONS
- 1.8** IMPLICATIONS OF RESULTS
- 1.9** LIMITATIONS OF THE STUDY

**APPENDIX 1.1** ORGANISATIONAL STRUCTURE OF THE NSW AUDITOR-GENERAL'S OFFICE

## **1.1 INTRODUCTION**

Since the early 1970's there has been increased demand for improved accountability and related efficiency<sup>1</sup> of public sector expenditure both within Australia as well as internationally. The Australian economy has had to undergo restructuring to cope, in a more effective<sup>2</sup> way, with the international economic and financial forces which are influencing the prosperity levels of the entire country.

This situation has resulted from the increased pressures placed upon the levels of funding available to governments at a time when real monetary values have decreased, but social and economic pressures have increased.<sup>3</sup>

Continued efforts, e.g. cash planning, which have been introduced to improve the standards of financial and managerial accountability, have led to the need for the traditional role of the government auditor to be expanded. This has been from a straightforward examination of the fairness of the financial statements of an organisation, called a regularity or compliance audit,<sup>4</sup> to an additional examination upon improved information systems, such as performance reviews, by way of the adoption of expanded audit mandates, called performance/efficiency audits.<sup>5</sup>

Most literature in this field is descriptive and observational in nature. This research seeks to examine the issues in terms of empirical analysis rather than purely descriptive nature.

This research will seek to examine the issue, the lack of resources in the office of the Auditor-General of New South Wales (NSW hereafter). However, certain matters concerning the Australian Audit Office (AAO hereafter) will also be reviewed. In particular, this will require examination of the relationships amongst the audit mandate, the new responsibilities concerning 'efficiency' or performance audits, and resource constraints upon the levels and utilisation of staff resources.

The intention of this study is to evaluate and provide empirical evidence on the levels and utilisation of staff resources under the effects of the new responsibilities held by the Auditor-General, in relation to the performance of efficiency audits.

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<sup>1</sup> See Section 1.3 Key Concepts.

<sup>2</sup> See Section 1.3 Key Concepts.

<sup>3</sup> Monaghan, C, 'Troubled Watchdog of Public Efficiency' - Business Review Weekly, October 13th 1989, p171.

<sup>4</sup> See Section 1.3 Key Concepts.

<sup>5</sup> See Section 1.3 Key Concepts.

Therefore, the objectives of this study are:

- i) To review literature in order to establish the fact that there is a problem regarding the shortage of staff within the offices of the Auditor-General's,
- ii) To evaluate the effects of the new responsibilities held by the Auditor-General, in relation to the performance of efficiency audits,
- iii) To establish that without adequate staff resources, the Auditor-General's of NSW Office cannot maintain an adequate level of complete efficiency audits, and
- iv) To provide empirical evidence, through the formulation of a statistical model, to support the hypothesis that staff resource constraints affect the number and depth of efficiency audits conducted by the Auditor-General of NSW Office.

## **1.2 THE PROBLEM**

In the last decade, high inflation rates have affected the levels of public expenditure. This situation has resulted in increased pressures to 'improve the efficiency' and limit 'waste' in the public sector.<sup>6</sup>

The public sector has grown in size and complexity in these recent years. Parliaments and Governments in Australia, as well as overseas, have sought to extend the traditional avenues of scrutiny. Such scrutiny would ensure that the public had the means to call Ministers and Public Officials `to account'. This, in turn, will broaden their opportunities to be aware of and to understand the administration of government policies and programmes.

The legislative role of the Auditor-General in Australia is mapped out by the Public Finance and Audit Act (1983). This role and its complementary reporting powers have varied little, both in theory, and in many cases, practice, since 1901.

What has changed is the perception of the Auditor-General's function held by Ministers of Parliament, the Government, and the general public, especially in regard to social auditing and performance issues.

In Canada, the Adams Report (1978) commented that:

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<sup>6</sup> JJ Glynn, 'Value for Money Auditing in the Public Sector', London 1985, p3.

*"...the role of auditors is constantly evolving in response to changing public needs and expectations. Although the primary function of auditors is to add credibility to financial information, recent developments indicate a growing trend towards viewing them in a broader context as agents of social control, as third party intermediaries in an accountability relationship between the management of enterprise and the users of its information."<sup>7</sup>*

The Public Sector plays a major role in setting the agenda for restructuring a country's economy. Financial deregulation and the floating of the exchange rate, for example, have increased the competitive pressures on elements of the Public Sector as well as opening the way to various new opportunities. 'The Public Sector's importance as a user of Australian, and overseas resources demands that it operate in the most efficient, effective and economical manner.'<sup>8</sup>

The move to efficiency auditing, led by the AAO in the 1970's, was along a path following the worldwide trend, which originated in the Office of the Auditor-General of Canada. In Canada, efficiency audits are called 'value for money audits (VFM)'.

The term 'performance auditing' was promulgated by the General Accounting Office of America (GAO hereafter) in the early 1970's.<sup>9</sup> These early years witnessed an average 150 performance audit reports to Congress, and by the mid-1970's, economy and efficiency audits occupied approximately 50% of staff time, of which 30% was devoted to efficiency auditing.<sup>10</sup>

In the GAO's 1972 publication, Standards for Audit of Government Organisations, Programs, Activities and Functions, the objectives of government auditing were stated as reviewing:

- a) financial operations and compliance with applicable laws and regulations,
- b) economy and effectiveness in management's use of resources, and
- c) effectiveness of programs in achieving a desired level of results.<sup>11</sup>

The International Organisation of Supreme Audit Institutions (INTOSAI) published a general statement in 1986, which dealt with performance auditing. The statement declared...'in addition to regularity audits, there is another type of audit which is concerned with the evaluation

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<sup>7</sup> JW Adams, 'Report of the Special Committee to Examine the Role of the Auditor', Canadian Institute of Chartered Accountants, 1978, p39.

<sup>8</sup> Annual Report of the Australian Audit Office 1987-88, p2.

<sup>9</sup> JJ Glynn The Development of Performance Auditing in Australia, Sydney, September 1987, p3.

<sup>10</sup> S C Dilley, 'Expanded Scope Audits - Untrapped Opportunities?' CPA Journal, Vol 45, December 1975.

<sup>11</sup> JJ Glynn, The Development of Performance Auditing in Australia, p4

of economy, efficiency and effectiveness in the public sector management, and which is regarded as performance auditing...' Also, the objectives of performance auditing are stated to include:

- a) provision of a basis for improvement of public sector management of all resources,
- b) improvement in the quality of information or the results of public sector management that is available to policy makers, legislators and the general community,
- c) encouragement of public sector management to introduce processes for reporting on performance, and
- d) provision for more adequate accountability.<sup>12</sup>

This statement reflects the view that performance auditing can contribute to a more economic, efficient and effective public sector and induce improvements in public sector information and accountability.

The political circumstances of the 1970's, a reformist Government and a new Auditor-General encouraged a parallel move in Australia<sup>13</sup> following the lead of the United Kingdom and Canada in the development and adoption of `performance auditing'.

The Royal Commission into Australian Government Administration (RCAGA) was established in 1974, when the first comprehensive review of the federal bureaucracy in Australia for fifty years was undertaken. The central philosophy of the Commission was that it recognised the degree to which the Australian system of government had come to be so different from the Westminster model on which it had been based at the time of Federation. The bureaucracy had ceased to be a neutral instrument of ministers who were themselves accountable to Parliament. There were large areas of administration for which ministers could not, in practice, be held accountable and for which the bureaucracy also escaped accountability.<sup>14</sup>

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<sup>12</sup> XII INTOSAI General Statement on Performance Audit, Audit of Public Enterprises, and Audit Quality, para 1(b); Appendix 6 'The Annual Report of the Australian Audit Office 1985-86, AGPS, Canberra, 1986.

<sup>13</sup> P Hamburger, 'Efficiency Auditing by the Australian Audit Office: Reform and Reaction under Three Auditor-Generals.' Accounting, Auditing, Accountability Journal, Vol 2, No 3, 1989.

<sup>14</sup> R N Spann, 'The Coombs Doctrine', in Hazlehurst, C and Nethercote, J R, (ed) Reforming Australian Government: The Coombs Report and Beyond, ANU Press, pp78 (1977).

The Commission wanted new institutional arrangements which would increase the responsiveness, responsibility, flexibility and accountability of the federal bureaucracy. The then new Auditor-General, Steele Craik, proposed an efficiency audit role in Australia similar to the GAO's performance audits. This was just the beginning of major changes in public sector auditing in Australia.

In 1979, the Australian Parliament found itself considering legislation that would greatly increase its power to scrutinise the executive government. The legislation and related government decisions allowed the AAO to select executive activities for review as the Auditor-General saw fit, to draft reports containing Opinions of the efficiency with which the activities were carried out and to recommend improvements.

All these changes represented major change for the AAO. The AAO was formed in 1901, along with its State counterparts, by the fourth Act of the new Parliament of Australia.

Initially it had the simple task of checking expenditure vouchers but had evolved by the 1970's into a modern audit agency.

The history of the AAO over the past fifteen years shows very little agreement on just what performance auditing in the public sector should be reviewing, who should be doing it and why. The objective began as accountability and moved past 'value for money'<sup>15</sup> review, to something like management consultancy, and then swung back to an uneasy compromise between accountability and value for money, satisfactory to neither auditees nor Parliament.

The independence of the Auditor-General is unique in modern public administration. The Auditor-General Monaghan (1985) was prompted to ask:

*'Does it all mean, then, that the Auditor-General works for no-one in particular, and can pretty much please himself what he does and how he does it?'* (p 36)<sup>16</sup>

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<sup>15</sup> Value for money - another term for efficiency auditing. In Canada, efficiency audits are called VFM audits. VFM audits plus the compliance auditing plus the financial attest auditing are the three VFM criteria.

<sup>16</sup> J V Monaghan, 'Who does the Auditor-General work for?' Government Accountants Group, the Act Division of the Australian Society of Accountants, Canberra. 19th November 1985.

The recent history of the AAO suggests that this high degree of independence results in sharp changes of direction as each new Auditor-General is appointed. It is certain, however, that the high degree of independence necessarily accorded the Auditor-General, combined with the contested and emerging nature of performance auditing, will make personalities and organisational culture important in this field. Proper consideration of these factors will remain central to any assessment of public sector performance auditing.

### **1.3 KEY CONCEPTS**

The Audit Act of the Australian Parliament confers the responsibilities on the Australian Auditor-General for auditing government administration from both financial accountability and management (performance or efficiency) standpoints.<sup>17</sup>

The role of the Auditor-General's Office is to provide professional services necessary for the performance of the Auditor-General's role. The Auditor-General's Office adopt a comprehensive approach to audits, which involves the planning, programming and conduct of a cycle of audits that examine and assess the legal compliance, financial regularity, economy and efficiency of the operations of the bodies being audited. The Auditor-General is given wide discretion in the discharge of his responsibilities, i.e. scope and extent of the detailed audit and the power to report on any matters arising out of the audit.<sup>18</sup>

The purpose of auditing is to give an independent assurance that public sector operations are reflected 'fairly' in accounting statements and reports issued by management and to obtain the information needed for reports on performance. The objective of reporting is to provide facts, comments and recommendations which will firstly, help Parliament review the operations of Government, secondly, help Government review the operations of Management, and thirdly, help Management review the operations of the Authority or Department.

'Performance audits' or 'efficiency audits' as referred to in the Act, are defined to cover the examination of efficiency and economy of the operations or functions of an audited

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<sup>17</sup> N Adams, 'Definitions, objectives and limitations of performance auditing - an AAO perspective'. Australian Accountant, August 1987, p29.

<sup>18</sup> ibid., p30.

organisation, together with the procedures of that organisation for reviewing the efficiency and economy of its own operations.<sup>19</sup> The concepts of 'performance auditing' were first used by the AAO in the early 1970's, but termed project audits'.

'Efficiency' and 'project audits' are part of the broader category 'performance auditing'. A definition of performance auditing is provided by INTOSAI, as follows: A 'performance audit' is an audit of the economy, efficiency and effectiveness with which the audited entity uses its resources in carrying out its responsibilities.<sup>20</sup> Efficiency audits are conducted under Section 48 of the Audit Act and project audits are executed under Section 54 and Section 63G. Efficiency audits are distinguished from project audits by the former's greater magnitude, complexity and significance of the subject matter. Project audits can arise from financial/regularity audits or can be small efficiency audits. Their dual origins are complications in their classifications. Sometimes the terms efficiency and performance are used interchangeably.

The Act does not define the terms 'effective', 'efficient' or 'economy'. The AAO accepts that 'economy' is part of 'efficiency' and that the terms of economy, efficiency and effectiveness are not clearly definable. These terms are used in the context of the performance auditing definition, which is an audit examination designed to determine whether the organisation in question is performing economically, efficiently and effectively in its use of resources, operating procedures and pursuit of objectives. There is no attempt to define the terminology used in the Act and so it is very difficult to fully appreciate the operational dimensions of the government audit mandates. The Act seems to be open to wide discretion resulting in differing interpretations for different people and so differing application.

Amendments to the Act in 1979 permitted the undertaking of efficiency audits in addition to traditional compliance audits.

These amendments had their origins in representations made by the Auditor-General to the Royal Commission on Australian Government (RCAGA hereafter) in 1976. The Auditor-General at that time, Steele Craik, brought attention to a paper which had been presented at the VII INTOSAI by Elmer Staats, the Comptroller-General of the USA Staats offered the view that

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<sup>19</sup> ibid., p29.

<sup>20</sup> J J Glynn, 'The Development of Performance Auditing in Australia', p4.

there were three types of audit - financial or regularity audit, managerial (operational performance) audit, and performance audit. The VII INCOSAI (International Congress of Supreme Audit Institutions) - the Congress of the INTOSAI - adopted a statement that an audit could be thought of as ensuring financial management and program accountability. The RCAGA accepted a wide view in stating that:

*"The Commission contemplates that the Auditor-General should have the power to audit the efficiency of departments and agencies through the use of finance, manpower and other resources....This clearly accepted Staats' view and what he had termed 'Management/performance auditing.'"*<sup>21</sup>

The Joint Committee of the Public Accounts (JCPA) defines the concepts of 'performance auditing' as... 'Effectiveness is concerned with the relationship between purpose and result. This action of program is effective if it achieves the purpose for which it was initiated. But efficiency involves additionally, a consideration of the resources used in achieving the result. A program is efficient only if its effectiveness is achieved with an economic use of resources...Efficiency is therefore concerned with the relationship between resources used and the results achieved between 'input' and the 'output'. It comprehends both economy and in this sense effectiveness.<sup>22</sup> An efficiency audit is defined by the Audit Act (1984) as `an examination of the function, operations and procedures for the purposes of forming an opinion concerning the extent to which operations are being carried out in an economical and efficient manner'.<sup>23</sup>

#### **1.4 THE SIGNIFICANCE OF THE PROBLEM**

Information on the size of the public sector<sup>24</sup> indicates a growing awareness of the need for greater accountability within the public sector. Signs of public disquiet<sup>25</sup> are becoming louder and illustrate the concern called for corrective legislative action. The attempt to improve the

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<sup>21</sup> Royal Commission on Australian Government Administration (RCAGA) AGPS, Canberra 1976, para 3.6.1.

<sup>22</sup> ibid., para 3.1.4.

<sup>23</sup> The Audit Act 1901 (Incorporating all amendments by legislation to 31 January 1987) Section 2(4) and (5).

<sup>24</sup> K Robson, NSW Auditor-General, 'A Public Sector Battle to Balance the Books', Business Review Weekly, August 18th 1989, p 129.

<sup>25</sup> ibid., p 130.

value for money in public spending has placed pressures on the general duties which govern auditors. The public needs increased assurance that public servants managing their resources are being held accountable for performance and results.

The Canadian Royal Commission on 'Financial Management and Accountability', March 1979 stated the view that:

*"...The serious malaise pervading the management of Government stems fundamentally from a grave weakening and in some cases, an almost total breakdown in the chain of accountability, first within Government and secondly, in the accountability of Government to Parliament and ultimately to the (Canadian) people."* <sup>26</sup>

In Australia, there has been a tendency to regard the Auditor-General as an instrument of the government, resulting in danger to the Statutory and public independence of the Auditor-General. In relation to efficiency audits, the Auditor-General cannot comment directly on the merit or efficiency of political, or government policy decisions. To do so would risk impinging on what are properly the prerogatives of the Executive and Parliament and may well lead to political controversy. Limited resources and funds are recurring problems which required the rationalisation of audit coverage and human resource deployment. The major problem is the loss of staff resources to internal audit roles, or to the private sector,<sup>27</sup> which, for example, the Auditor-General's Office of NSW has faced for many years. Restraints imposed by governments are part of its budgetary approach and are not designed to restrain the independence of the Auditor-General. Yet, in reality, these restraints cause the need for greater reliance on the work of internal auditors and restriction on the audit coverage by the Auditor-General.

In this light, issues surrounding the reform are those issues which affect the numbers of efficiency audits conducted.

These issues include:

- i) resource constraints;
- ii) the use of private auditors, and
- iii) legislation which affects the office, in a rapidly changing environment which is dramatically different from 1901 when the Audit Act was introduced.

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<sup>26</sup> J J Glynn, 'The Development of Performance Auditing in Australia', p.9

<sup>27</sup> K Robson, op.cit., p 127

In this research, concentration will be on issues surrounding resource constraints, and more specifically, staff resources. It will be shown that staff resources available to the Auditor-General for the conduct of regularity and efficiency audits, are deeply connected with the duties placed upon the Auditor-General the audit mandate and the level of funding available to the Auditor-General's office.

Staff resources constraints have long been an issue with the Auditor-General's. In 1984, the then Auditor-General of Australia, Mr Keith Brigden,<sup>28</sup> claimed that his office was understaffed, under paid, received too little ministerial help and that the statutory independence of the office suffered because of government restraints.

*"Despite the fact that our workload was substantially increased in 1979 with the enactment of the efficiency audit provisions, we now have fewer staff than we had in 1979, ... Since that time, and quite apart from the efficiency auditing, there has been a substantial growth in our responsibilities..."<sup>29</sup>*

In a more recent article,<sup>30</sup> the NSW Auditor-General's Office in 1990 is still so starved of money that it is unable to do its job properly, reported the Public Accounts Committee. The Auditor-General's Office had been seriously affected by a shortage of money, making the ability of the Auditor-General to provide Parliament and the public with the assurance that the financial operations of the State were being properly managed. The Auditor-General did not have enough resources to conduct comprehensive investigations into areas of government spending.

These two articles illustrate the issues with which this research is concerned.

In 1984, there was a major problem of large workload and a lack of staff. In 1990, one can see that nothing has changed. The Auditor-General of NSW is still starved of resources which prevent the office doing its job properly.

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<sup>28</sup> K Brigden, 'More work, less staff for the Auditor-General', The Sunday Mail, December 9, 1984.

<sup>29</sup> ibid.

<sup>30</sup> L Garcia, 'Financial guardian hindered in job report says: Auditor Starved of cash'. The Sydney Morning Herald July 25th 1990, p 2.

From this, the research problem in this dissection can be inferred, from which certain research questions can be now developed in the next sub-section.

## **1.5 RESEARCH QUESTIONS**

- 1 How has the lack of resources or resource constraints affected levels of staffing within the Auditor-General of NSW Office?
- 2 How has a lack of staffing affected the levels of performance/efficiency audit work carried out by the Auditor-General of NSW Office?

These research questions can be divided into major hypotheses as follows:

- H<sub>1</sub>: Resource constraints within the Office of the Auditor-General of NSW have affected the levels of staffing.
- H<sub>2</sub>: Inadequate staff resources have affected the number and depth of efficiency audits carried out by the Auditor-General of NSW Office.

From the hypotheses, one can determine that the research is looking at the efficiency and effectiveness of the use of staff resources within the Office of the Auditor-General of NSW.

## **1.6 RESEARCH METHODOLOGY AND STATISTICAL ANALYSIS**

The methodology of this research will be a combination of observational and descriptive evidence and data, which has been collected for hypotheses testing.

Data has been gathered primarily through a series of interviews and informal discussions with staff of the Auditor-General of NSW Office. This has enabled the review of new policies and procedures which have been adopted in the light of resource constraints.

The statistical analysis will be carried out on data published by the Auditor-General of NSW, contained in the annual reports: These reports are publicly available. Data from these annual reports will be non-parametric, interval data and will be analysed using the Probit method.

A literature search will also be conducted to review current legislation which governs the role of the Auditor-General with special attention to limitations which impair the numbers of efficiency audits conducted by the NSW Office.

## **1.7 TENTATIVE CONCLUSIONS**

From limited readings and interviews with the Deputy Auditor-General of New South Wales, the following tentative conclusions have been established.

The Public Act mandates in Australia are slow to change. The Australian Audit Office, the Victorian and New South Wales Audit Offices, have made significant progress in developing performance/efficiency auditing as part of their comprehensive audit methodology.

The Audit Act, despite revision in 1979, holds no clarity and does not recognise the comprehensive audit mandate as developed by the Australian Audit Office. It is hoped to show that the Auditor-General has a mandate to apolitically carry out performance/efficiency audits in line with the approach increasingly being adopted internationally (Canada, New Zealand and United Kingdom). The present misconceptions surrounding what is understood by 'performance auditing' and the related concepts have suppressed further developments.

Policy matters appear to have failed to fully support the evolution that is nevertheless slowly taking place in public sector auditing. In order for politicians to evaluate the impact of policies, they must enact unambiguous legislation that becomes the cornerstone of improvements in the management and scrutiny of government.

'Central to the development of performance auditing is the need for suitably qualified staff. There has been a dramatic growth in government activities and increases in the numbers of potential auditees. Staff resources are stretched with many talented auditors attracted to other public agencies of the private sector.<sup>31</sup>

These difficulties are similar to those faced in other countries. Past experiences in Canada and the United States tend to support the present position in Australia, that progress at the

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**31** JJ Glynn, 'The Development of Performance Auditing in Australia', p.26.

national government level is more advanced than at the State level. Evidence of this can be seen when comparison is made between the AAO and the NSW Audit Office.

J V Monaghan, a past Commonwealth Auditor-General, in his own discussions with Auditor-General's and their equivalents from many countries, cannot recall one who explicitly accepts that he is reviewing or questioning government policies. He has encountered wide variability in the breadth of similar institutions, and the narrower the concept of what constitutes policy the more there is that is not 'policy', and strongly stressed the obvious need to exercise caution in attempting to translate auditing mandates and practices from one institutional environment to another.<sup>32</sup>

In 1984, Keith Brigden said that the AAO was not performing its full function because it was out of step with worldwide trends.

'We are almost unique in the sense that, while ministers have recognised the independence of the office, they have done very little to see that we are able to do our job... The Auditor-General is vested with a great deal of discretion but the constraints placed on our resources are such that we cannot carry out a number of audits, especially in the efficiency area which, in my view, we should be doing.'<sup>33</sup>

## **1.8     IMPLICATIONS OF RESULTS**

The AAO applies the efficiency audit powers of the Audit Act as part of a comprehensive audit mandate.

Auditing in a political environment imposes constraints that are unique to the public sector constant struggle to secure the resources to maintain the function is only one aspect. The public sector auditor is continually engaged in dealings with the Parliament, with all levels in the Executive arm of the government, and the variety of non-departmental agencies subject to audit. These dealings require a great deal of effort, care and judgement.

It is important that the independence and effective exercise of the public audit function not be eroded. In Australia there seems to be a reluctance on the part of some State governments

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<sup>32</sup>       *ibid.*, p 30.

<sup>33</sup>       K Brigden, op.cit.

and Auditor-Generals to involve themselves in judgements which may appear to be political or which could invite political criticism through the audit of public policy.

The Canadian and New Zealand interest in performance/efficiency auditing appears to have been politically motivated with concern to restrict public sector expenditures and to reduce costs. This situation explains the strong interest in effectiveness, efficiency and economy components of performing auditing and implies the direction of future development in these countries.

In comparison, Australian developments have been hampered by resource constraints and political decisions. Australia has legislative and structural constraints which do not permit the audit of effectiveness. The Acts of Parliament governing the role, duties and responsibilities of the Auditor-General are vaguely worded and open to interpretation which results in the adoption by the Auditor-General of different interpretations about the permissible scope of the work.

Australian apprehension regarding the effectiveness dimension of performance auditing is a result of the concern regarding the Auditor-General and his independence. To avoid comment on government policy, these concerns may be allayed by increased separation of the Executive arm of the Government from Parliament as well as an effort to ensure that the image of independence of the Auditor-General is conveyed to the public.

Important questions in relation to any form of performance auditing are what is to be audited, by whom and to what end?

These questions are yet to be answered despite an assumption in much of the associated literature, that they have been. Far from being a neutral, technical discipline, performance auditing is what the auditors choose to make it.<sup>34</sup>

Perhaps in the next few years we will witness a consensus of opinions which may eventuate following the inevitable changes brought from the report of the Joint Committee of Public Accounts, Report 296: The Auditor-General: Ally of the People and Parliament.

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<sup>34</sup> P Hamburger, op.cit., p5.