

**DIFFERENT MODELS FOR PUBLIC ACCOUNTS COMMITTEES IN
REVIEWING THE WORK OF AUDITORS. HOW BEST TO ADD
VALUE TO THEIR WORK:
A WESTERN AUSTRALIAN PERSPECTIVE.**

The relationship between Public Accounts Committees (PACs) and Auditors General varies between jurisdictions operating under the Westminster system of government. It is fair to say, however, that most are characterised by a level of cooperation and information sharing. Parliament is provided with constitutional duties as trustee of the public interest, and powers to scrutinise government action, thereby increasing government accountability. There has been criticism of Australian Parliaments in recent decades of their willingness and/or capacity in performing their constitutional duties. Essentially, the criticism levelled against Parliaments during the 1980s and early 1990s related to their perceived failure to act as trustee of the public interest by ensuring that government acted for the benefit of the public.

PACs and their equivalent Committees, as you are all well aware, are the primary Committees focussed on holding governments to account for the expenditure of public moneys. It stands to reason then that the relationship between PACs and Auditors General, the key independent body charged with informing Parliament on public sector accountability and performance, has the potential to play a critical role in assisting parliament to scrutinise such expenditure. In many jurisdictions PACs have cultivated a complementary relationship with the Auditor General for such purposes.

This paper will firstly cover the recent history of the relationship between the PAC and the Auditor General in Western Australia (WA), and will examine how this relationship has evolved into its current form. The paper will not be limited to considering only how the PAC may add value, but looks more broadly at how Committees of Parliament may do so. This is for two reasons:

- Firstly, the Auditor General is an independent officer of Parliament, with Parliament as the client for his/her advice and information. It is Parliament's prerogative how it uses this information; and

- Secondly, in WA, following the recent passage of the *Auditor General Act 2006*, a situation has evolved whereby three different Committees of Parliament now have a role in the legislation, and therefore have the specific challenge to use audit findings in their work.

Approaches to value adding

There are a number of possible approaches to value-adding to the work of the Auditor General, including the establishment of agreements or understandings between Auditors General and Parliamentary Committees and a range of report review models. In the 1990s the then Public Accounts and Expenditure Review Committee (PAERC) in WA established an agreement between itself and the Office of the Auditor General to facilitate mutual support between both organisations. From this agreement evolved three other models of value adding that we can currently see operating in WA. These are reviewed below.

Statement of Understanding: 1996-2000

The 1996 Statement of Understanding between the WA Auditor General and the PAERC was designed to enhance the accountability mechanisms of the Parliament by improving communication and coordination between the Auditor General and the Committee. The Statement was a strong signal that both parties recognised the commonality that had developed between their objectives, to ensure that public moneys had been spent lawfully, effectively and efficiently. It was also a signal from that Committee to future Public Accounts Committees, that they should recognise the benefits of maintaining a cooperative and supportive relationship with the Auditor General.

Importantly, the Statement recognised that a cooperative relationship was critical for both parties to remain independent, whilst still supporting each other. It was considered that this objective could be met by following the four major components of the Statement:

1. support for the true independence of the Auditor General;
2. the sharing of information and referral of matters that will assist in both parties meeting their objectives;
3. the Committee follow up of Auditor General's Reports; and

4. each party respecting the independent rights and obligations of the other.¹

Operationally, the relationship was characterised by frequent, sometimes informal meetings to discuss matters of mutual interest and involved regular follow-up of Auditor General's Reports, which were then tabled in Parliament. Under this model, the Committee could choose whether to follow-up on specific issues. The following section provides details of different ways in which Auditor General Reports enhance or contribute to the work of Committees, and equally, how Committees can add value to the work of Auditors General.

1. Audit Report → Inquiry

This is the most common approach in Australia, and usually involves Parliamentary Committees (not just Public Accounts Committees) with the capacity to generate own-motion inquiries scanning the reports of Auditors General to sift for potential topics for further inquiry.

Typically, this is a one report = one inquiry match and usually occurs in a 6-12 month period following the release of an Auditor General's report. In these instances, Committees add the most value through:

- building on the public attention – '*striking whilst the iron is hot*';
- adding weight to the Auditor General's recommendations;
- seeking Government's commitment to a response;
- '*holding them to it*' – getting that commitment on the public record and in sworn evidence; and
- exploring avenues that the Audit Office cannot – critiquing Government policy, following up on individual stories and taking verbal evidence.

The strength of this model is that it allows the value add process to easily move outside of the PAC, the Committee that traditionally manages the relationship with Auditors General in Westminster systems. This single topic inquiry model can suit both Standing and Select Committees of either House with relatively narrow terms of

¹ *Report on the Statement Of Understanding Between the Auditor General and the Public Accounts and Expenditure Review Committee*, Western Australian Public Accounts and Expenditure Review Committee Report No. 32, 1996, p.1

reference. This extends the impact of audit findings more broadly across Parliament and thereby serves the public well.

The limitations of this model are that it allows audit findings to 'slip through the net', as Committees select whatever they have time for or are interested in, with no overarching Parliamentary process to ensure that value is added to all audit findings with merit.

2. *Single Inquiry* → *Audit Report*

There have been recent examples of where Parliamentary Committees have considered a course of inquiry based on their own scanning processes, but seek support from the Auditor General to help them determine whether an inquiry may have merit, and what lines of inquiry may prove useful. The 2006 PAC *Inquiry into Local Government Accountability* was one such example whereby the Committee sought the advice of the Auditor General prior to developing terms of reference.

In these instances, Committees are looking to Auditors General to be able to stand back from the detail of their past findings, and draw on their existing body of work/knowledge to make risk assessments and to consider whether there may be substance in the Committees concerns, and how best to frame an inquiry. Using this process, Committees add the most value through:

- '*new pastures*' – applying lessons from past audits to new areas, using the different resources and inputs of the Committee to help scope topics that may not have appeared on the radar for the Auditor General;
- '*spreading the load*' – there may be matters of interest that would be of benefit to the Parliament and public to explore, but an Auditor General's program is finite – this approach can use the wisdom and experience of audit but lead to the actual work being done by a Committee;
- '*getting the big picture*' – sometimes individual audit reports may not acknowledge mounting trends across government, or whole sector risks. Through listening to Audit at the outset of an inquiry, a committee can do this, and can bring this understanding to framing its inquiry; and
- '*now you mention it...*' – a Committee's request for advice may trigger an audit report itself, providing two products to the public: an initial inquiry and then a

subsequent audit report on particular aspects raised, through the research and hearings.

This relationship in some ways is similar to that of a Premier to their Office or Department, where briefings are provided. As this analogy suggests, it can have both benefits (above) and risks.

A key risk is that the quality of the advice provided at the outset of an inquiry, without a discrete audit to back it up, is never going to be as highly regarded or as reliable in the public domain as true audit findings. This is the case even if the advice is based on analysis of many similar audits. The strength of audit, the reasons why Parliaments rely on Auditors General, is that they are not policy officers, or research officers, but auditors, with all the rigour and testing that implies.

3. Multiple Audit Findings → Committee Report

In addition to the single report-single inquiry approach there is a need to provide a comprehensive approach to following up all audit findings leading to recommendations for action by government.

With the establishment of the 36th Parliament in 2001, the PAC continued its work and relationship with the Auditor General in the spirit of the 1996 agreement. In that year it reviewed the annual report of the Auditor General and noted that while significant resources were devoted to producing the Auditor General's performance examinations and reports on public sector agencies, which include numerous recommendations to improve the operations of the agencies, neither the Auditor General, nor the PAC, had a formal method of monitoring the progress of agencies in implementing recommendations. It was a concern to those members that the potential benefits of the Auditor General's work were not maximised due to the absence of regular checks on agencies following report tabling.

The Auditor General's communication with agency management on the audit findings at the conclusion of the audit process outlines shortcomings identified during audits and provides the basis for management to improve accountability processes, controls

and assists in the development of quality reporting systems.² No further interaction occurs unless a Follow-Up Performance Examination is undertaken. Although the Auditor General undertakes Follow-Up Performance Examinations³, there is no direct assessment of individual recommendations made in the original report.

The PAC considered that direct monitoring of the uptake of recommendations in agencies may add value to the work of the Auditor General and provide the Committee with an understanding of issues facing public sector agencies. It therefore recommended that all Government agencies that are the subject of a Performance Examination by the Office of the Auditor General should be required to report to the PAC within 12 months providing details on the implementation or otherwise of the Auditor General's recommendations.⁴

The Committee subsequently wrote to all Government Ministers and Directors General advising them of the requirement to report to the Committee, and received favourable responses. The initiative was welcomed by the then Auditor General, Des Pearson, as a means of ensuring that agency accountability to Parliament is enhanced. The process is best described as follows:

1. Auditor General's Report tabled in Parliament;
2. PAC writes to relevant agency (in the weeks following tabling) and requests the agency provide it within 12 months with a Report on actions taken;
3. PAC forwards agency response to the Auditor General's Office to be assessed against original Report;
4. Auditor General's Office provides feedback to the Committee relating to the agency's progress. Based on this feedback and the deliberations of the Committee, it may choose to:
 - a) write to the agency and request additional information or clarification;
 - b) hold a hearing with relevant agency officers; or
 - c) take no further action.

² Office of the Auditor General for Western Australia, Annual Report 2001-2002 p.22

³ In Western Australia, Performance Examinations are carried out around 2 years after the original reports are completed in order to assess agencies' progress in the relevant area.

⁴ Western Australian Legislative Assembly, Public Accounts Committee, Report 3/2003, *The 2001-2002 Annual Report of the Office of the Auditor General: A Performance Review*, pp 7-9.

In these instances, Committees can add the most value through:

- adding longevity - bringing matters from previous months/years back to public attention;
- adding weight to the Auditor General's recommendations;
- seeking the Government's commitment to a response;
- 'holding them to it' – getting that commitment on the public record and in sworn evidence; and
- being consistent and comprehensive.

The strength of this model is that it begins precisely where Auditor Generals leave off – at the recommendation. It is an efficient split. It is not and cannot be the role of the Auditor General to enforce Government's response to audit findings. Further, Parliamentary Committees are often not in a position to do the investigative work that leads to the audit findings. Therefore, we see this approach as neatly fitting the two roles together around the audit findings, with the PAC doing what we do best – monitoring, overseeing, bringing to account – and the Office of the Auditor General doing what it does best. A further strength is that this approach prevents audit findings from 'slipping through the net', providing a safety net so that all Auditor General recommendations are followed up, regardless of which reports attract the most media interest or prompt other Parliamentary Inquiries.

A limitation of this model is that it does not allow for further inquiry, and can seem quite superficial, as it must spread across a broad area. It can also raise questions of how much is enough – when do we stop tracking these agencies in their progress? When does the load, passed now from the Auditor General to the PAC, pass on to the Cabinet and individual Ministers?

The current Committee resolved to report annually to Parliament on the outcome of this process, with its first report tabled in November 2006, and while it is still very much 'feeling its way', it is working with the Auditor General to fine-tune the way in which it carries out and presents its reviews. We did find, however, that while most agencies appeared to welcome the opportunity to demonstrate measures taken in

response to recommendations, there were one or two that were perhaps less enthused about the process for various reasons.

Legislative changes

Further to following up on the reports of the Auditor General, there are other ways in which the Parliament can add value or contribute to the work of the Auditor General. Some PACs in Australia have long had statutory requirements to review Auditors General, for example, the Victorian Public Accounts and Estimates Committee is required by statute to undertake a number of functions relating to the Victorian Auditor General's Office. One of these is to oversee a review of the Victorian Auditor General's Office every three years by an independent auditor appointed by the Committee.⁵ The situation is similar in New South Wales, where section 48A of its *Public Finance and Audit Act 1983* requires the PAC to hold a review of the Audit Office at least once every three years. The Committee sets the review's terms of reference and appoints the reviewer.⁶

In WA, recently introduced legislation has given a statutory basis to some aspects of the PAC's dealings with the Auditor General, which may enhance or add value in terms of the capacity to request audits in specific policy areas and to have consideration to the Office's budget. The *Auditor General Act 2006* came into operation in late January 2007. This Act significantly re-shapes the relationship between the Auditor General and the PAC and introduces a new Joint Standing Committee on Audit (JSCA) to oversee and become involved in the process of determining the appointment of future Auditors General, and a limited role in determining the budget. Although at the time of writing it was yet to be formally established, it is anticipated that the JSCA will be made up of PAC members and members of the Estimates and Financial Operations Committee, the Upper House Committee with similar functions to the PAC.

Whilst establishing the primary importance of the Auditor General's independence, the Act requires the Auditor General to "have regard to" the audit priorities of Parliament as determined by either House, or two Parliamentary committees - the

⁵ Victorian *Audit Act 1994*

⁶ New South Wales, *Public Finance and Audit Act 1983*, section 48A.

PAC and the Estimates and Financial Operations Committee (section 8). The two Committees will also be able to request audits be carried out (section 20) and the JSCA will be able to make recommendations regarding the budget of the Office of the Auditor General (OAG), its organisational structure and its resources (section 44). In addition Parliament will have the power to initiate the process for removing or suspending the Auditor General, a power previously vested in the Government. Section 7(4) provides that either House of Parliament may order the JSCA to inquire into and report on any motion for suspension or removal of the Auditor General.

Concluding remarks

Clearly there are a number of ways in which PACs, and other Parliamentary Committees can add value to the work of Auditors General. Each of the models discussed above has benefits and limitations. Each one will apply best in different circumstances.

Some issues have limited audit potential, as there is scant documentary record, or it crosses heavily into a critique of government policy. These may benefit from the application of the second model, where Committees seek advice from the Auditor General on risks, audit issues and applicable findings from other projects.

Other issues are steeped in detail, require intensive analysis, or lack obvious 'hooks' for a Committee. These may benefit from the first model – once the audit work is done, perhaps there will be an issue or matter for a Committee to progress. In practice, it is often a mix of all models that add the most value. The key to this mix is to be aware of the nature of each player, understand the topics and choose the model that is 'fit for purpose'.

Parliamentary Committees have powers that Auditors General could only dream of.....powers to compel evidence, to challenge Government policy, to explore perspectives without the burden of audit process. Auditors General have access to enormous amounts of information, and can offer great wisdom. The challenge for all of us is to work closely with each other, understand when to work together and when to work apart, and thereby add the most value we can to the topics we explore.



