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The appropriate role of public accounts committees in reviewing the work programmes of audit offices

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Introduction

1 This paper asks the conference to consider the appropriate role of public accounts committees in reviewing, on behalf of their Parliaments, the work programmes of audit offices. I examine the example of the New Zealand Parliament, and use it to demonstrate how a consultative relationship between parliaments and audit offices can be developed while upholding the independence of audit offices and Auditors-General.

2 In most Commonwealth countries it is understood that public accounts committees may review and comment on the Auditor-General's proposed annual work programme. This parliamentary involvement is based on the understanding that the Auditor-General has the independence to determine the audit programme and the nature and scope of the audits to be conducted. It is also understood, however, that suggestions by public accounts committees are commonly incorporated into the Auditor-General's work programme.

3 The independence of the Auditor-General is critical. It enables Parliament, the Executive, and the public to feel confident that the Auditor-General's position as an independent watchdog is unassailable. Independence needs, however, to be tempered with accountability. Review of the annual plan of the Auditor-General is an accountability mechanism, but it must be exercised responsibly, and with the independence of the Auditor-General at the forefront of our minds.

4 In this paper, I outline for delegates the history of New Zealand public accounts committees and the functions performed by the Controller and Auditor-General Tumuaki o te Mana Arotake. I also examine briefly some recent national and international events that may have some impact on the relationship between the two, and suggest that in these changing times it is more important than ever that the role of the Finance and Expenditure Committee in reviewing the Auditor-General's work programme, and the independence of the Auditor-General, be well understood and respected.

History of New Zealand Public Accounts Committees

5 Over the past 155 years public accounts committees of the New Zealand House of Representatives have seen many changes. Some of these changes have occurred as a result of legislation, while others result from the personalities and drive of individual committee members.

Public Accounts Committee, 1870–1962

6 The Public Accounts Committee was first appointed in 1870. It had been preceded from 1854 by a number of committees of a similar nature under various names.¹ The Public Accounts Committee considered the annual estimates of Parliament usually, in the words of the Parliamentary Historian, “with the aim of uncovering embarrassing details rather than scrutinising financial management and accountability from a wider perspective.”²

¹ John E. Martin, , *The House: New Zealand's House of Representatives 1854--2004*, Dunmore Press, Palmerston North, 2004, p. 56.

² Martin, *The House*, p. 226.

7 Committee reports were submitted not to the House of Representatives, but to the Government. Reports of the Public Accounts Committee were never published.³ In 1932 the rules were changed so that the committee could consider only issues referred to it by the Government or the House. Following this change, few issues were referred to the committee and even fewer reports were tabled in the House.⁴

Public Expenditure Committee, 1962–1985

8 In 1962 the Public Accounts Committee was replaced by the Public Expenditure Committee. It consisted of 12 members who examined the estimates and reported on possible economies, scrutinised the public accounts and those of Crown corporations, and, in collaboration with the Controller and Auditor-General, inquired into matters referred to it by the House.⁵ During this time it was the only select committee with the ability, albeit limited, to undertake inquiries on its own initiative.⁶

9 The Public and Expenditure Committee broadened its role to include the discussion of policy matters, and undertook a number of investigations of public bodies beyond the bounds of parliamentary appropriation. From 1972, however, its estimates discussion was no longer permitted to include policy matters, and as its reports began to be tabled late in the session they were no longer debated in the House.⁷

Finance and Expenditure Committee, 1985 to the present

10 The Public Expenditure Committee was abolished in 1985 and the Finance and Expenditure Committee took over its appropriation co-ordinating function.⁸ Its ability to scrutinise public accounts was strengthened in 1986 and again in 1994.⁹ The Finance and Expenditure Committee is one of thirteen subject select committees established at the beginning of each Parliament to which the House may refer bills, petitions, international treaty examinations, and other Parliamentary matters that fall

³ <http://www.teara.govt.nz/1966/G/GovernmentParliament/ParliamentAndThePublicService/en>

⁴ Martin, *The House*, p. 261.

⁵ Martin, *The House*, pp. 261–262.

⁶ David McGee, *Parliamentary practice in New Zealand*, 3rd ed., Dunmore Publishing, Wellington, 2005, pp. 426–427.

⁷ Martin, *The House*04, pp. 262, 275.

⁸ McGee, *Parliamentary practice in New Zealand*, p. 451.

⁹ Martin, *The House*, p. 307.

within their respective subject areas. The committee can also initiate inquiries into, or receive briefings on, any business within its subject area.¹⁰ The subject area of the Finance and Expenditure Committee covers matters relating to the auditing of the financial statements of the Government and departments, Government finance, revenue, and taxation.

11 The Finance and Expenditure Committee takes a lead role in the parliamentary oversight and scrutiny of proposed and past Government expenditure and reviews of the annual performance and operations of Government departments, Crown entities, public organisations, and State-owned enterprises. All Estimates examinations stand referred to the Finance and Expenditure Committee when the Budget is presented, and the committee can either examine Votes itself or refer them to the appropriate subject select committees for examination. Similarly, the Finance and Expenditure Committee can retain financial review examinations of the performance and operations of departments or entities, or can allocate them to the appropriate subject select committee. The Finance and Expenditure Committee is also responsible for examining the Government's Budget policy statements and the annual financial statements of the Government.

Interface with the Auditor-General in financial accountability processes

12 The Auditor-General, like all public-service entities and officers of Parliament, is required by the Public Finance Act 1989 to present to the House an annual report at the end of each financial year. The annual report enables the Auditor-General to explain to Parliament and the public what he or she has done and how well the office has performed during the year. It includes financial and non-financial information, and discusses the extent to which the office has achieved its goals for the year.

13 Once the annual report of the Auditor-General is presented to the House, the financial review of the Office stands referred to the Finance and Expenditure Committee for examination. The Finance and Expenditure Committee examines the performance and operations of the Office over the previous financial year and reports

¹⁰ McGee, *Parliamentary practice in New Zealand*, p. 238.

on this to the House. During the Budget process, the Finance and Expenditure Committee examines the estimates for Vote Audit.

The Controller and Auditor-General and the Annual Plan

13 The Controller and Auditor-General, commonly referred to as the Auditor-General, is an Officer of Parliament. As an Officer of Parliament he or she is independent of the executive and of Parliament in discharging the functions of the office. The Auditor-General is, however, answerable to Parliament for the stewardship of the public resources entrusted to the office.

14 The office employs staff and engages private-sector auditors to assist the Auditor-General in carrying out the duties of the office. The office's staff are employed outside the public service, but adhere to public service standards.

15 The work of the Controller and Auditor-General is carried out by two business units—the Office of the Auditor-General and Audit New Zealand. Audit New Zealand is the operating arm of the office. Its business is to provide annual audits and other assurance services to public entities.

16 The Office of the Auditor-General

- sets policy and standards
- undertakes strategic audit planning
- appoints auditors and oversees their performance
- undertakes performance audits
- authorises approvals under the Local Authorities (Members' Interests) Act 1968
- responds to enquiries from ratepayers, taxpayers, and members of Parliament.

Draft annual plan of the Auditor-General

20 Section 36 of the Public Audit Act 2001 requires the Auditor-General to prepare and submit a draft annual plan, listing the proposed work programme for the year, to the Speaker of the House of Representatives at least 60 days before the

beginning of each financial year. The plan must be finalised and presented before the beginning of the financial year.

21 This presentation of a draft annual plan to the House is an important way of allowing Parliament some limited input into the Auditor-General's proposed work programme. The Auditor-General, after considering any comments from the Speaker or select committees, may amend the plan. He or she is also required to indicate in the plan the nature of any changes to the work programme requested by the Speaker or any select committee but not included in the plan. In this way the Auditor-General may ensure that the work of his or her office remains relevant and responsive to the needs of its key stakeholders—Parliament and the public.¹¹

Providing comment on the draft annual plan

22 The Finance and Expenditure Committee is responsible for facilitating select committee comment on the draft annual plan. Timeframes for commenting on the plan—and facilitating the comment of other select committees—are usually tight as the plan must be presented at a specified stage in the Budget cycle.

22 In December 2002 the Finance and Expenditure Committee, after consulting the Auditor-General, made a special report to the House noting the process it intended to use to facilitate robust comment by select committees on the annual plan. This process was intended to allow sufficient review and consideration time for committees to arrive at meaningful comment, and it is still used today.

23 Preliminary draft work programmes are now sent to subject select committees each December for review and comment. The Office of the Controller and Auditor-General has offered to brief committees on the preliminary draft, and this opportunity has been taken up by some committees. Comments are delivered to the Auditor-General by late February. The Auditor-General, may amend the plan after considering any comments. The Auditor-General then prepares the statutory draft annual plan for submission to the Speaker in March.

¹¹ Controller and Auditor-General, *The Auditor-General's proposed work programme for 2009/10: document for consultation with members of Parliament*, p. 4.

24 As the legislation envisaged, after its presentation the Finance and Expenditure Committee circulates the draft annual plan to select committees for comment. The Finance and Expenditure Committee co-ordinates select committee responses, which are forwarded to the Auditor-General by the end of April so that the final annual plan can be presented by the Speaker to the House before the beginning of the financial year.

25 This useful process was established, and has been maintained, in large part because of the respect the Parliament and the Auditor-General have for each other's roles. In agreeing to deliver a preliminary draft for comment, the Auditor-General acknowledges the useful part that Parliament can play in ensuring the work of his office remains relevant and responsive to stakeholders. However, in providing comment, we Parliamentarians must remain mindful of the Auditor-General's independence. In this way, the implementation of this review process itself has helped to strengthen understanding, and respect, in the relationship between the Parliament and the Auditor-General.

An unusual set of circumstances

26 A number of unusual factors have arisen recently which may affect the relationship between Parliament and the Auditor-General in New Zealand, and change some of the ways in which we interact.

27 The new Government established after the 2008 General Election and the economic recession being felt around the globe may of course have some impact on the operations of the two bodies, and perhaps the interface between them, in various ways.

28 In response to the credit crunch and the collapse of financial institutions, Governments around the world have guaranteed and / or underwritten wholesale and retail financial activity or even nationalised failed financial institutions. The implications of that for public finances cannot be underestimated. Governments will now have to measure, quantify, and qualify financial risks that many central banks, financial institutions, and auditors did not account for correctly in the first instance,

leading to the systemic financial market failure that now confronts the world. The pressure upon the auditors of public accounts will be intense. International Financial Reporting Standards will result in large swings in the valuations of sovereign balance sheets. On top of this, the exit strategies of Governments from guarantees and equity holdings will have to be considered. Adherence to the demands of stock exchanges' protocols that requires almost instant release of market sensitive information will create tension with the often slower moving public sector processes.

29 However, there are two specific changes that relate directly to the operations of the Auditor-General and I watch with interest to see how—or if—they affect the relationship between Parliament and the Auditor-General. The first is reports of the Auditor-General, and the second is his statutory retirement.

Reports of the Controller and Auditor-General

30 The Auditor-General may report to the House at any time on matters arising out of the performance and exercise of his or her functions, duties, and powers. These reports can include reports on inquiries and performance audit reports.

31 Before 2009, these reports were presented to the House and remained there. In 2008 the Standing Orders of the New Zealand House of Representatives were reviewed and republished. Under the new Standing Orders reports from the Auditor-General, once tabled in the House, are referred to the Finance and Expenditure Committee. The Finance and Expenditure Committee may choose to consider these reports itself or refer them to the relevant subject committees for examination.¹²

32 Since this new Standing Order has been in force, four reports have been presented by the Controller and Auditor-General. Three have been referred to subject select committees, and one has been retained by the Finance and Expenditure Committee. The Auditor-General has made his office available to assist committees in their examination of his reports. It will be interesting to see how this new interface between Parliament and the Auditor-General progresses over the coming year. It could be expected that it, like the review of the annual plan, this new interface may

¹² See Standing Order 387. *Standing Orders of the House of Representatives*, 2008, p. 118.

help strengthen the respect and support that Parliament and the Auditor-General accord each other.

Statutory retirement of the Auditor-General

33 Schedule 3 of the Public Audit Act 2001 requires Auditors-General to step down after seven years and prohibits their being reappointed. We must note with some trepidation that the term of the current Auditor-General, the first appointee under the Act, is due to end in May of this year.

34 The Officers of Parliament Committee, which is responsible for the appointment of a new Auditor-General, has recently established a sub-committee to undertake a selection process. Once this process is complete, the Officers of Parliament Committee will report to the House and, upon the recommendation of the House, the Governor-General will appoint a new Auditor-General. I take this opportunity to thank Mr Brady for his time as Auditor-General, and wish him well for the future.

35 Mr Brady has helped to establish some of the key processes where Parliament and the Auditor-General interact, and I am hopeful that the yet-to-be-appointed Auditor-General will wish to respect and maintain the processes that Mr Brady has helped to build, which have us working so well together.

References

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