

“Dry and Repulsive” –The Parliamentary Component of Supreme Audit Institutions¹

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Introduction

Economic Significance

The function of supreme audit institutions is to audit the accounts of government. It might seem odd for an economist to be interested in them. Surely they are of more concern to political scientists, lawyers and accountants than to economists?

Such was, for long, the view of the economics profession in general. Even that subset of them known as ‘development economists’ considered matters of government to be of little concern². What was important was that government be ‘effective’³. And so, as long as an undemocratic dictatorship seemed to be ‘delivering the goods’ economists were unworried. They might concede that there were some human rights issues but because determining just what they are involves value judgements they were of no concern to economists⁴.

That was the view of the World Bank until the beginning of the 1990s when it became increasingly obvious to the bank (and others) that the long term effectiveness of government was not unrelated to its constitution. Since then a number of Bank studies have confirmed the importance of good national governance. For instance, a World Bank study found that projects in countries where there was a degree of democracy and transparency, were more likely to be successful than those in countries with lower levels of democracy.⁵ Other Bank studies have shown that good governance, in the form of institutions that establish a predictable, impartial, and consistently enforced set of rules for investors, is crucial for the sustained and rapid growth in per capita incomes of poor countries⁶. As a result, whereas the Bank had formerly tended to rely on its own in-country institutions for financial management and auditing it became increasingly concerned to strengthen the corresponding domestic structures. In plain language, the Bank now recognizes that good governance is essential to the achievement of long-term sustainable development.

¹ I acknowledge, with thanks, the comments of the Deputy Speaker of the Parliament of Victoria, Mr Peter Loney, MP on an earlier draft of this paper. Needless to say, I alone am responsible for its content.

² Of greater interest to many of them was the need to privatize government owned activities.

³ “Effectiveness”, for long, simply meant that the money allocated had been spent!

⁴ And hence the Latin word *qua* entered economics literature. Economists wrote “*qua*” economists, not “*qua*” concerned citizens.

⁵ Kaufmann D and Pritchett, L H “Civil Liberties, Democracy and the Performance of Government Projects,” *The World Bank Economic Review*, Vol. 11, #2, May, 1997. (cited in Kamarck, Elaine, "Government Innovation Around the World" (February 26, 2004). KSG Working Paper No. RWP04-010. <http://ssrn.com/abstract=517666>)

⁶ Knack, S “Aid Dependence and the Quality of Governance: A Cross-Country Empirical Analysis” World Bank Working Paper 2396 (July 2000)
[http://wbln0018.worldbank.org/research/workpapers.nsf/0/30529397228d0a778525691c006768c7/\\$FILE/wps2396.pdf](http://wbln0018.worldbank.org/research/workpapers.nsf/0/30529397228d0a778525691c006768c7/$FILE/wps2396.pdf)

Historic Development

The supreme audit institutions of parliaments that operate in the Westminster tradition derive their origins from the 1857 Select Committee of Public Monies. That committee, chaired by Sir Francis Baring, a former Chancellor of the Exchequer⁷, found many deficiencies in the management of appropriations. As far as he was concerned the most egregious of these related to the Duke of Wellington's funeral. The £80,000⁸ voted for it had been fully drawn from the Exchequer before the 5th of April, 1853 but three years later.

£24,000 of this money had not been required for or spent on the funeral. It had remained floating in the Pay Office, and had been used for Army, Navy and other requirements, by a system of payments and repayments, which was most confused and unsatisfactory.⁹

The committee also found that although the auditing of departmental accounts was in the hands of the Audit Board, many were only partly audited and that the Treasury accounts were not audited at all. And yet, as Baring later pointed out to the House of Commons, Treasury and other similar high offices were

just the departments to whom the audit of a Parliamentary and independent Board should have applied.¹⁰

Accordingly he proposed that there be a radical overhaul of both the appropriation and the audit of civil service estimates¹¹.

In 1861, following the recommendation of Baring's Committee, William E Gladstone, the Chancellor of the Exchequer, proposed that a Select Committee on Public Accounts be established

to review the accounts of the public expenditure after they had gone through the regular process of examination in the hands of the executive Government.¹²

In nominating the members of the committee, Gladstone claimed that they were

chosen with a view to give satisfaction to both sides of the House, and fairly to represent all parties, while bringing as much talent, knowledge and experience as possible to discharge these important functions".¹³

Two members of parliament were not, however, happy about the nominees. One objected because the list contained no Irish name, the other because there was no Scottish Member. In response, Gladstone insisted that he

⁷ "Baring disliked office and withdrew after 1852" according to Jonathan Parry. *The Rise and Fall of Liberal Government in Victorian Britain* (Yale, 1993) p.179. He did not, however, resign from parliament and retained his interest in the efficient administration of public moneys until he was elevated to the House of Lords in 1866.

⁸ This would certainly be many millions in today's currency.

⁹ *Hansard*, Vol 160, 9th August 1860, column 940
Wellington died on 14th September 1852. His funeral, the most splendid in English history, was held on 18th November, but his ornate tomb in Westminster Abbey was not ready to receive his coffin until 22nd November 1853.

¹⁰ *Ibid.*

¹¹ *Ibid.*

¹² *Hansard*, Vol 162, 9th April 1861, col. 318.

¹³ *Hansard*, Vol 162, 19th April 1861, col. 773

could not sanction the notion that on a question of public accounts, which had no imaginable bearing on any separation of interests between one part of the kingdom and another, these national distinctions should be imported into the appointment of a Committee of that House. The Government had sought to ascertain what hon. Members were best qualified to undertake these duties, which were of a *dry and repulsive* kind, and he believed their choice was correct. (my italics)¹⁴

Five years later, the *Exchequer and Audit Departments Act 1866*, required all government departments to produce accounts for independent audit. It also created the position of Comptroller and Auditor-General.

It is on the basis of these two pillars, an independent Auditor-General that audits public accounts, and a parliamentary committee¹⁵ that reports to the House of Commons, that the Parliament of the UK has, since 1866, achieved full control over public money¹⁶. And it is on a similar basis that most parliaments that follow the Westminster system of government operate today.

Institutional Arrangements

Parliament, the A-G and the PAC

Parliament provides the authority, through the Budget, for the Government to expend public moneys, and the Government later accounts to Parliament for that expenditure. The auditing process ensures that those public funds have been spent according to the undertakings given in the Budget. As part of that auditing process the Auditor-General examines, on the basis of economy, efficiency and effectiveness, the accounts of the agencies that have spent the public funds and then reports the results of these investigations to Parliament.

The diagram¹⁷ illustrates the relationships and direction of communication between the three actors in the auditing process. The public interest is represented by a triangle with each actor being located at an apex to indicate that none is dominant over the others¹⁸.

The relationships are, of course, more complex than is shown in the diagram. For instance, it shows no direct communication from either the Executive or the Parliament to the Auditor-General. That office however must be provided with sufficient resources to ensure that it is able to operate effectively and these must, ultimately, come from the public purse. In the Westminster system, it is normal to

¹⁴ *Hansard*, Vol 162, 19th April 1861, col. 774

¹⁵ These committees are generally referred to as Public Accounts Committees, but in some jurisdictions they have slightly different names and functions. All such committees are referred to in this paper as 'Public Accounts Committees', abbreviated as PACs.

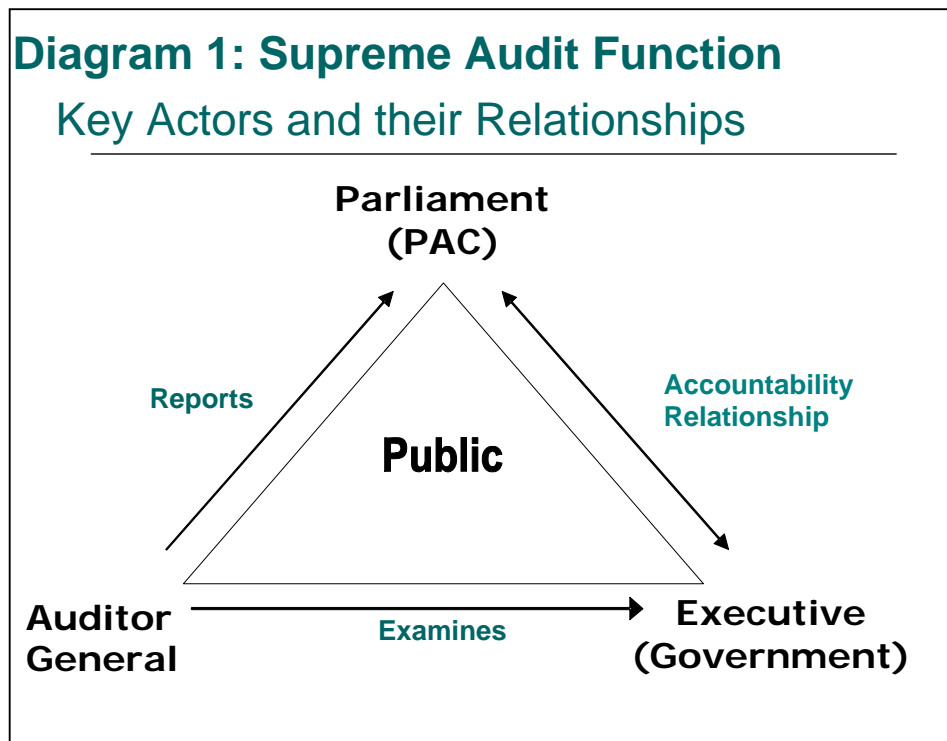
¹⁶ National Audit Office, UK. (2001) *State Audit in the European Union*, p236

¹⁷ Derived from Stapenhurst, R. "Good Governance, Parliamentary Oversight & Financial Accountability", World Bank Institute,

<http://www1.worldbank.org/publicsector/pe/BudgetManagFinAccCourse04/BudgetMgt.ppt>

¹⁸ This is consistent with the doctrine of the separation of powers in government. This requires that the legislature, the executive and the judiciary of a nation should act independently of each other in that none should exercise power over the others and that each should confine its activities to its own area.

appoint the Auditor-General as an Officer of Parliament¹⁹ in an effort to ensure that the office remains as independent as possible from both Parliament and the Executive. Separate legislation provides the appointee to conduct audits of government departments and agencies.



Maintaining independence between Parliament and the Executive is more problematic. The principle of the separation of powers requires that the Executive, the Legislature and the Judiciary should be independent of each other. However, within the Westminster system that is not entirely possible. On the one hand, the Executive is dependent upon its capacity to maintain the confidence of the majority of members of the Parliament and, on the other hand, many members of parliament can only be confident of holding their seats while the existing government is in office. As a consequence there has been an increasing tendency for the Executive, once elected, to treat the Legislature with disdain. When it comes to the expenditure of public funds, that disdain can border on the corrupt. It is at this point that the effectiveness of the Public Accounts Committee becomes crucial.

The Mandate of Public Accounts Committees

Public Accounts Committees are normally established as Standing Committees of Parliament, but in some recent democracies they have been established under the national constitution. Their mandate is to examine the Auditor-General’s reports to Parliament and to follow up the issues raised in them. Most PACs need not rely on the Government of the day for references as is the case with other Parliamentary committees and therefore they are able to initiate inquiries into broader aspects of

¹⁹ That is, the officer is directly responsible to Parliament rather than to the Executive.

economic management which they may conduct themselves, or suggest that they be undertaken by the Auditor-General²⁰.

As Standing Committees, PACs have considerable powers of investigation. Practices vary between jurisdictions but in general they are able to summon a wide range of witnesses including senior members of the bureaucracy²¹. Whether Ministers can be required to attend differs between jurisdictions. PAC hearings are generally open to the public and the media and this, together with their reports to Parliament, provides an opportunity to widely publicise administrative inadequacies.

Conventionally, PAC inquiries are restricted to the ways in which the funds appropriated by Parliament are actually expended rather than the reasons for that expenditure. That is, their role is best described as being that of evaluating projects and programmes rather than of policies. In 1953, the chairman of the reconstituted Australian Joint Committee of Public Accounts and Audit (AJCPAA), explained this in the following way:

If the Government decided to build hothouses in Canberra in order to grow tomatoes, the committee would not have anything to say about the decision. But when the accounts were presented, the committee would examine the cost of building the hothouses and would consider whether the administration was efficient, whether the purchase of supplies was economical, and whether the results achieved were satisfactory. These are matters that the committee can legitimately consider and criticize. Therefore, it will criticize the administration of policies but it will keep clear of any reference to the wisdom or otherwise of Government policies.²²

Such an emphasis enables PAC members to act as individuals rather than as members of the Government or Opposition. The approach is by no means universal, but when it is followed there is no incentive to follow a 'party' line and as a consequence the committee's reports and recommendations are likely to be bipartisan²³.

Membership

It has always been standard practice for PACs to be multi-party committees. The majority of members are normally drawn from the government benches but approximately two thirds of PACs are chaired by members of the Opposition²⁴. This practice is claimed to enhance the objectivity of PACs but it is not followed in Australasia²⁵. The current chairman of AJCPAA has recently sought to justify the Australian position by claiming that

Because the Chairman and majority of the JCPAA members are drawn from the Government party or coalition of parties, recommendations of the Committee have great credibility. This contrasts to a situation where a Parliamentary committee might be 'controlled' by members drawn from non-

²⁰ The mutual independence of Parliament and the A-G requires that the Parliament cannot direct the A-G.

²¹ For many bureaucrats this can be a very forbidding experience.

²² F A Bland, *House of Representatives Hansard*, 23rd August 1953, p. 553.

²³ Efficiency in the allocation of resources is not, in itself, an ideological matter. Thus the room for 'party' divisions on PACs is not as great as it may be on other parliamentary committees.

²⁴ McGee, D., *The Overseers: Public Accounts Committees and Public Spending*, Commonwealth Parliamentary Association (London) 2002, p.97.

²⁵ In these cases it is conventional for the deputy chair to be drawn from the Opposition.

government parties. Recommendations from such committees run the risk of being viewed by the Government as being intended to score political points²⁶

This argument is far from convincing. It seems to suggest that the credibility of the committee's recommendations is dependent only upon their acceptability to the Government. In fact, as far as the public is concerned, the validity of the recommendations is far more likely to be dependent upon the public's confidence in the integrity and capacity of the individual members of the PAC than on the acceptability of its recommendations to the Government²⁷.

'Professionalism' of Members

In discussing the appointees to the first PAC, Gladstone assured the House of Commons that

The Government had sought to ascertain what hon. Members were best qualified to undertake these duties

and that the appointees brought with them

as much talent, knowledge and experience as possible to discharge [their] important functions.

In so saying he begged the question of what best qualified a parliamentarian to be a PAC member. Theoretically, at least, the only qualification required for members is that they be nominated and approved by their fellow parliamentarians. It would be neither practicable nor desirable to restrict membership according to formal or professional requirements. Ideally, of course, one would hope that they had the intellectual capacity and independence of mind that is traditionally equated with the 'professions'. There is, however, no 'professional' body that sets appropriate standards for the behaviour of parliamentarians. They are set by their parliament and, ultimately, by their constituents.

The Commonwealth Parliamentary Association (CPA) is the closest approximation to a professional body for the parliamentarians of the Commonwealth of Nations. Its principal goal is to promote knowledge of the constitutional, legislative, economic, social and cultural aspects of parliamentary democracy. It does this by conducting numerous conferences and seminars and via a wide range of publications. All members of parliaments of the Commonwealth may belong to the CPA but it has no capacity, other than that of moral suasion, to enforce its standards or recommendations. That does not mean that it is ineffective. It provides a powerful network through which 'best practices' are exchanged and thereby influences not only its own members but also the officials who serve parliamentary committees²⁸.

As well as being members of the CPA, members of the Australian and New Zealand PACs belong to the Association of Public Accounts Committees (APAC) and the

²⁶ Joint Committee of Public Accounts and Audit Presentations to SAPAC, November 2003. <http://www.aph.gov.au/house/committee/jpaa/thailand.pdf> "Opening Remarks", Bob Charles MP, p.13

²⁷ Indeed so much so that one authority has suggested that if more than 80% of a PAC's recommendations are accepted by Government then its worth may be suspect!

²⁸ Increasingly they are themselves becoming members of their own professional organizations. For instance, the Australia and New Zealand Association of Clerks-at-Table was established in 2001 as a professional organisation for parliamentary officials in New Zealand and Australia.

Australasian Council of Public Accounts Committees (ACPAC). Both organisations were founded in the 1980s to help develop the effectiveness of their members. In 2003, convinced of the educative value of these organisations, the members of ACPAC resolved at their biennial conference to develop a similar international organisation. The proposed organisation, the International Conference of Public Accounts Committees (ICPAC), is intended to focus on the exchange of practice information, on the development of accountability standards and approaches, and on the development of training materials for members of PACs and their staffs.

La Trobe University has been invited to assist in the provision of the administrative and research support for the establishment of ICPAC and its initial conference which is expected to be held in 2006.

Recent Developments in the Audit Function

Changing audit requirements

The UK Public Audit Forum has summarised the purpose of public audit as being

to ensure that public bodies meet their statutory and ethical duties to the public and other stakeholders in an open and even-handed manner²⁹.

However the Forum also points out that

there is no definitive code or guidance that sets out exactly all the activities or behaviours that will infringe [appropriate] standards³⁰.

Of course, any standards that are established will vary from society to society. They will also change with circumstances and over time. Thus, for example, the standards that have been applied to the activities of government owned agencies may be inappropriate once those activities have been handed over to public-private partnerships (PPPs). For instance, government owned agencies must ensure that all potential bidders are treated equally when tenders and expressions of interest are called, but private companies need only ensure that the most economic outcome be achieved within the existing legal framework. The increasing use of PPPs has led to the development of appropriate standards for the auditing of their economy and effectiveness to become a major area for inquiry by PACs³¹.

As well as requiring that public agencies act with 'propriety', the public is increasingly concerned with their non-financial performance. Thus for instance, there is an increasing interest in the environmental consequences of publicly funded projects. This has led a number of PACs to investigate the pros and cons of environmental accounting. The Victorian PAEC's inquiry into this³² has resulted in

²⁹ Public Audit Forum, *The Principles of Public Audit*. www.public-audit-forum.gov.uk/popa.htm, p.2

³⁰ Public Audit Forum, *Propriety and Audit in the Public Sector*. (London, 2001), p.4

³¹ See, for instance, Public Accounts and Estimates Committee (Victoria) *35th Report "Inquiry into Commercial-in-Confidence Material & the Public Interest"*
http://www.parliament.vic.gov.au/paec/reports/PAEC-35_CommercialInConfidence_2000.pdf

³² PAEC *46th Report "Environmental Accounting and Reporting"*
http://www.parliament.vic.gov.au/paec/reports/PAEC-46_EnvironmentalAccounting_2002.pdf

the Victorian Government requiring a wide range of commercial and governmental organisations to provide annual environmental accounts³³³⁴.

Related to environmental accounting is the problem of how heritage and other national assets should be valued in financial reports. The Victorian PAEC's very detailed recommendations on this are contained in its 49th report³⁵.

Value for money

All members of the public are entitled to expect that the funds raised by governments are used in the best way possible. This requires, amongst other considerations, that the funds be expended 'effectively'. That is, that they get 'value for money'. This is often a complex and difficult task. It involves examining the relationships between the planned outputs of projects and programmes and their actual eventual outcomes. This requires going beyond the simple analysis of determining whether funds have been expended in the way that was specified in the Budget, to determining whether the policy goals of that expenditure could have been more efficiently achieved.

PACs are increasingly becoming engaged in these performance audits. When the value of a project's sole goal can be readily measured in money terms there is little difficulty. It is far more difficult, however, when there is a multiplicity of outputs, or if the project's goals include social or environmental outcomes. These require making qualitative judgements and lead to recommendations that may go far beyond the usual limits of financial management and control. Recent Canadian examples include an inquiry into immigration control and enforcement³⁶ and an inquiry into the reintegration of women offenders³⁷. In each of them, the Committee's recommendations were aimed at ensuring that the relevant departments achieved their non-monetary policy goals.

Most value for money inquiries arise from an Auditor-General's report but, as mentioned earlier, PACs may also initiate inquiries on their own account or in response to a request from their legislature. A recent example comes from California. Academics at California State University requested the State PAC³⁸ to commission the Bureau of State Audit to audit the management of the university's Common Management System. This was because they believed that the university administration had diverted resources intended for teaching into administrative software systems. The audit³⁹ found that significant resources had indeed been diverted from teaching funds. It also uncovered other inadequacies in the university's

³³ For a detailed account of these see the *Final Report on Environmental Accounting and Reporting: Government Response* http://www.parliament.vic.gov.au/paec/reports/PAEC-46_EnvironmentalAccounting-GovResponse_2002.pdf

³⁴ It is worth noting that a recent survey conducted by the World Bank and the CPA held the Victorian PAEC to model world's best PAC practice.

³⁵ *49th Report "Valuation and Reporting of Cultural, Heritage and Infrastructure Assets"*, http://www.parliament.vic.gov.au/paec/reports/paec-49_culturalvaluation_2002.pdf

³⁶ Standing Committee on Public Accounts, Ottawa, *Twenty-Fifth Report: Citizenship and Immigration*, www.parl.gc.ca/InfoCom/PubDocument.asp?FileID=66266&Language=E

³⁷ Standing Committee on Public Accounts, Ottawa, *Twenty-Sixth Report: Correctional Service Canada — Reintegration of Women Offenders*,

www.parl.gc.ca/InfoCom/PubDocument.asp?FileID=66140&Language=E
³⁸ The Joint Legislative Audit Committee of the California State Legislature.

³⁹ California State Auditor, *California State University: Its Common Management System* <http://www.bsa.ca.gov/bsa/pdfs/2002-110.pdf>

financial management including conflicts of interest and spending overruns. These findings caused the university to correct the inadequacies.⁴⁰

PACs and Public Confidence

Because PACs are able to investigate budgetary matters in a wider context than Auditors-General they are able to recommend improvements in budgetary reporting procedures. In this way they can assist in increasing public confidence in the validity and transparency of the entire budgetary process. At times these recommendations may relate only to the manner and content of annual reports, but at other times they go far deeper. A recent Northern Territory PAC inquiry provides an example.

The Treasurer of the Northern Territory was alleged to have, in May 2001, instructed the head of Territory Health Services to artificially reduce the department's estimated expenditure for 2000-01 so that the estimates for the coming year would show an increase equal to the expected increase in CPI. That is, to put it crudely, to 'cook the books' so that departmental expenditure would seem to be increasing in line with inflation. The PAC found that the deception had in fact occurred, but that it was not illegal. It subsequently made a number of recommendations to substantially reduce the likelihood of similar interference in Budget processes⁴¹ in the hope that Parliament and the people could, in the future, place greater trust in the figures published in the Budget Papers.

The integrity of the processes of PACs may increase public confidence in the entire budgetary process. It is also possible for the reverse to occur. The South African Standing Committee on Public Accounts (SCOPA) inquiry into aspects of the government's arms purchases led to such a negative outcome. The committee's draft report⁴² was critical of the government tendering process and suggested that aspects of it be referred to the Special Investigations Unit for further investigation. The President of South Africa rejected the recommendations and 'invited' the committee to reconsider them. Before that could be done, SCOPA was reconstituted and politicised. One of the government members of the committee then resigned from Parliament because of his objection to the alleged efforts of cabinet ministers to 'rein' him in. Later the chairman of SCOPA resigned from his position because the committee members were no longer acting in the tradition of bi-partisanship.

These events led to considerable public debate and turmoil. Not only were the government's purchasing policy and the public auditing process questioned, but the very integrity of the Government was challenged⁴³. The issue has rumbled on now for several years with a mixture of outcomes. The chief whip has been gaoled for four years for accepting a bribe as part of the arms deal but investigations into allegations

⁴⁰ Krafchik, W. "What Role Can Civil Society and Parliament Play in Strengthening the External Auditing Function", <http://www.internationalbudget.org/auditorgeneral.htm> pge4.

⁴¹ <http://www.nt.gov.au/lant/parliament/committees/pac/pacreports/FinalReportForInternet.pdf>

⁴² SCOPA: *Strategic Arms Purchases Review: Final Report on Standing Committee on Public Accounts Final Report, 30 October 2000* <http://www.pmg.org.za/bills/scopa14.htm> and Laurence, P. 'Arms deal inquiry crushed', *Focus 21*, March 2001 <http://www.hsf.org.za/focus21/focus21arms.html>

⁴³ For further details see Transparency International: *Global Corruption Report 2003*, <http://www.globalcorruptionreport.org/> p.253, and IDASA: "Democracy and the Arms Deal: an interim review by Idasa", 16 May 2001. <http://www.idasact.org.za/pims/arms/review.htm>

that the Deputy President attempted to solicit a bribe to protect an arms company from being investigated have failed to lead to a prosecution because the Director of Prosecutions considered it unlikely to succeed⁴⁴.

Conclusion

According to a widely held view of economics, the efficient allocation of scarce resources between alternate ends is the principal concern of economists. It is towards determining how this can best be achieved that much neoclassical theory has been developed. It is unfortunate however that when it comes to the critical analysis of public expenditure the skills of economists are often underutilised. More often than not economists in the public sector are employed as *advocates* for a project rather than as economic *analysts*. This may be understandable enough. Governments (and senior bureaucrats) have 'pet' projects. What they want are 'sound' arguments in favour of them. They certainly don't want to learn that they might be 'uneconomic'. Nor do they want to provide their critics with any ammunition. Little wonder, then, that economists employed directly, or indirectly as consultants, by governments may not be as rigorous in their analyses as objectivity would demand.

Public Accounts Committees provide a mechanism to ensure that governments expend public funds in the way that they have laid out in the Budget. Through their careful analysis and reporting to both the Parliament and the public, PACs are able to bring pressure to bear on governments to maintain high levels of financial integrity. PACs are also able, through their critical *ex post* examination of government expenditure, to point out how it can be more efficiently and effectively employed in the future. Both of these activities may seem, in Gladstone's words, to be 'dry and repulsive' but they are essential for the good governance of a state.

It is the responsibility of all citizens, and especially of those concerned about the efficient allocation of resources, to seek to ensure that PACs achieve their potential. At the very least, this will require that they can call on high quality research and other support facilities. The proposed Public Sector Governance and Accountability Research Centre at La Trobe University will be a significant step in that direction.

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⁴⁴ Transparency International: *Global Corruption Report 2004*, p. 61.3