

Notes for talk at the launch of 'Audit Commissions: Reviewing the Reviewers', by Scott Prasser and Kate Jones – Diamantina's Restaurant, Carlton, 3rd February 2014

- I would like to thank Scott and Kate for asking me to launch this book, *Reviewing the Reviewers*. I also want to emphasise that I am doing so in a personal capacity: nothing I say this evening should be imputed to my present employers – although as the book notes (and as Scott mentioned) I was Chief Executive of the Victorian Commission of Audit established by the Kennett Government in October 1992, which was one of the 13 'Commissions of Audit' or similar type bodies reviewed in this monograph.
- As Scott and Kate note, all but one of these bodies were established by newly-elected Coalition Governments. This is something that they attribute, in part, to an innate suspicion on the part of newly-elected Coalition Governments, particularly during what they term the 'first era' of such bodies, that the public services which they had inherited had been 'politicized' by their predecessors.
- I would argue that it is at least also as much a product of the fact that it is usually Coalition Governments which come to office in fiscally challenging circumstances. Certainly that was the case in all but one of the seven Audit Commissions of the 'first era' (the exception being the one established by the Borbidge Government in Queensland in 1996). Arguably this was less so during the 'second era', although in each of those seven instances the fiscal position which the incoming Government had inherited (or which, in the case of the Labor Government in South Australia in 2009, it then confronted) was clearly weaker than it had been when the preceding Government came to office.
- By way of illustration, I found myself speaking immediately after Steve Bracks at a CEDA beginning-of-the-year event in February 2000, just after the 1999 Victorian State election at which he had ousted Jeff Kennett. I recall saying, Mr Bracks is unique in the recent history of newly elected Governments. Every incoming head of Government since Bob Hawke in 1983 had followed more or less the same script, after receiving an initial briefing from the heads of Treasury and Finance: "Oh dear, those dreadful b*****ds you just voted out of office, they lied about the state of the nation's (or the state's) finances, the cupboard is bare, and we can't possibly keep all of our promises". No, Mr Bracks, after receiving his initial briefing from the then head of the Victorian Treasury said, in effect, "oh dear, those dreadful b*****ds you just voted out of office, they lied about the state of the state's finances – there's even more money in there than he let on, and I'm going to spend it". Which, more or less, is what he did.
- That's not to say that outgoing Coalition Governments *never* leave financial messes for incoming Labor ones. Malcolm Fraser famously did in 1983; as did Tasmanian Premier Robin Gray for his Labor successor Michael Field in 1989. With the example of Nick Greiner before him, Michael Field would have been entirely justified in establishing an Audit Commission when he formed a minority government, with the support of the Greens, in that year. Instead, he simply got on with the job of starting to clean up the fiscal mess which Robin Gray left behind, and it was only when the Liberals returned to office under Ray Groom two years later that Tasmania had its Audit Commission – which, as Scott and Kate note, had less impact than many of the others.

- Scott and Kate make a number of observations about the ‘first wave’ of Audit Commissions with which, as a participant in one of them, I largely agree.
- First, they weren’t, in my view (and that of some contemporary critics such as Bob Walker) ‘audits’ in the strict sense in which that term is used by the accounting profession – although some of them, including the one with which I was associated, were asked to pass judgement on whether the financial statements presented by the previous government ‘fairly and accurately represented the true state of affairs’ of the jurisdiction in question.
- Second, they weren’t public enquiries, in the sense that a Royal Commission (for example) typically is. They had neither the resources, nor the time, nor the expertise to call and examine witnesses, and pass judgement on the credibility of their evidence. As an aside, the Kennett Government initially did want the Victorian Commission of Audit to point fingers at individuals who it may have concluded were ‘responsible’ in some ways for the financial mess that the Victorian public sector had become by the early 1990s: but the Commissioners (rightly, in my view) considered that this was not an appropriate task for them to be expected to discharge, and the Kennett Government (again, rightly), backed down.
- Third, they were, inevitably and inherently, political. That doesn’t *necessarily* mean they were either partisan or ideological. But they were, transparently, used for political purposes – including, variously, to sully further the reputation of the administration which had been defeated at the preceding election, to build public understanding or acceptance of the need for unpopular budgetary decisions, or (alternatively) to allow the government to distance itself from more ‘radical’ proposals in order to procure grudging acceptance of the proposals which it did implement.
- Fourth, their recommendations were typically strongly informed by what Scott and Kate refer to as ‘new public management’ or ‘NPM’. Shortly after the Victorian Commission of Audit was established, I gave each of the Commissioners a copy of the book *Re-Inventing Government* by David Osborne and Ted Gaebler, which I had picked up on a visit to Washington earlier that year, just after it had been published. Some might remember that one of the most prominent champions of their work was Vice-President Al Gore, who was then and is now generally regarded as being to the left of the centre of the spectrum of American political opinion. The first of Osborne and Gaebler’s ‘Ten Principles’ for ‘reinventing government’ was that governments should focus on ‘steering not rowing’ – that is, governments should focus more on ensuring that services which people needed were provided (efficiently, effectively and equitably) and less on providing those services themselves (ie through public sector agencies). That principle, and the others, unashamedly permeated the Victorian Commission of Audit’s thinking. And Bob Officer, who chaired the Victorian Commission, took the same approach to the National Audit Commission which he subsequently chaired for the Howard Government.
- In my opinion, Scott and Kate have under-emphasized the importance of two institutional developments to which the ‘first wave’ of Audit Commissions contributed – although one for which they were in no sense solely responsible- and which helps explain why what they call the ‘second wave’ of Audit Commissions were established with different expectations.

- First, by the early 2000s, I think I am right in saying that every jurisdiction, Federal and State, had introduced accrual accounting – something recommended by all of the ‘first wave’ of Audit Commissions. Accrual accounting not only requires the explicit recognition of non-cash expenses such as depreciation and employer superannuation liabilities; it also requires the publication of balance sheets (and hence regular estimates of the values of assets and liabilities); and it makes it more difficult for governments to shuffle cash receipts or payments between years in order to conceal a deterioration in their underlying financial position (although Wayne Swan nonetheless tried valiantly in respect of the 2011-12 financial year). Moreover, the ‘Uniform Presentation Framework’ adopted by all State and Territory Governments and, less completely, by the Commonwealth, requires the presentation of all these financial statements for the non-financial and financial public enterprises sector as well as for the ‘general government’ or ‘budget’ sector – making it harder for governments to conceal expenditure commitments or liabilities ‘off budget’, as the Cain Labor Government in Victoria had turned into an art form later emulated by Enron.
- Second, again I think by the early 2000s, every jurisdiction had implemented a ‘Charter of Budget Honesty’ or similar legislative instrument requiring, among other things, the publication during each election campaign of fully articulated budget forward estimates free of any political interference by incumbent Ministers.
- Between them, these two reforms have made it virtually impossible for governments to conceal the ‘true’ state of their finances ahead of an election – and hence removed the requirement (or scope) for a newly elected government to establish ‘how bad things really were’, something which was a principal task of all of the ‘first wave’ of Audit Commissions, but which the ‘second wave’ Commissions haven’t needed to undertake.
- And when they have tried to – or been expected to – come up with a message like that, they’ve struggled. Hence the second Queensland Audit Commission established by the Newman Government in Queensland in 2012 had to resort to highlighting the measure of gross debt in order to make the numbers sound worse than those for net debt (the conventional summary measure of a government’s financial position) which had been published just before the March 2012 election. Likewise, for all Joe Hockey’s talk of finding ‘spiders in cupboards’ after the most recent Federal election, most of the deterioration in the deficit for 2013-14 which he unveiled just before Christmas last year was due to decisions which the Coalition Government has taken since coming to office; and most of the deterioration in the fiscal position for the remaining years of the forward estimates period reflects either Coalition decisions or the effects of further downward revisions to Treasury’s projections of revenues – not things which the previous Labor Administration had ‘concealed’.
- This may be one reason why the Audit Commissions of what Scott and Kate call the ‘second wave’ have, in general, had less of an impact than those of the first wave. As Scott and Kate note, they “lacked the strength of purpose and certainty” of the first wave of Commissions. Another is that the appetite of governments, and the tolerance of electorates, for reforms of the sort for which the ‘first wave’ of Audit Commissions were intended to help pave the way has greatly diminished since the mid-1990s – a point which Ross Garnaut, among others, has also identified.

- As someone who devoted eight months of his life to one of these exercises I sympathise particularly with the people – Commissioners and staff – who worked on those of the ‘second wave’ whose reports were never publicly released or, in one case (as Scott and Kate relate) “not even bothered to read” by the head of the government for which it was prepared. Certainly for the Commission with which I was involved, I sought to make sure that when the Commission’s report was published, the media and public focus was on what was in the Report, not on the Government’s reaction to it (by making embargoed copies of the report available to selected journalists a couple of days ahead of it being presented to the Government). The experience of the report of the National Commission of Audit established by the Howard Government was very different.
- I think the Abbott Government would have been in danger of making a serious mistake if, as had been reported, it proposed to ‘sit on’ the two reports of its Audit Commission until the forthcoming Budget, by which time it would have decided which of the Commission’s recommendations it was going to accept and which it would reject. The Government initially defended this intention by pointing to how the Rudd Government had dealt with the Henry Review. But nearly everyone now recognizes that to have ‘sat on’ the Henry Review for almost six months after receiving it, and then to release it along with the announcement that it had adopted a handful of its recommendations while rejecting most of them (and several other things that it hadn’t actually recommended) was one of the Rudd Government’s worst mistakes. Had Wayne Swan released the Henry Review when he received it just before Christmas 2009, saying “this is a comprehensive yet complex report, but it doesn’t represent government policy and we will take time to consider its recommendations, and the response of interested groups to it”, the flaws in the resources rent tax recommended by the Henry Review would have been quickly identified in the ensuing public debate, and the Rudd Government might then have been able to construct a more commercially realistic and politically saleable resource rent tax – with who knows what different economic and political outcomes.
- Fortunately it seems that Joe Hockey has reconsidered his initial position, and will now release the Audit Commission’s interim and final reports well before the May Budget. That is, I believe, as it should be. Bodies such as these can’t – and don’t – get everything right. Nor can they realistically be expected to, given the time constraints (and in some cases the resource constraints) under which they operate. Public debate will usually expose any egregious errors in such exercises – and ultimately the quality of government decision-making will be better for that.
- Scott and Kate have provided a valuable service with their timely and readily digestible review of the role played by Audit Commissions over the past 25 years, and I hope their little monograph will gain a wide readership over the months ahead.