

The Production of Legitimacy in New Zealand Local Government Auditing

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Philip Colquhoun

Correspondence to:

Philip Colquhoun

Telephone: +64 4 463 5776

Facsimile: +64 4 463 5076

Email: philip.colquhoun@vuw.ac.nz

Centre for Accounting, Governance and Taxation Research

School of Accounting and Commercial Law

Victoria University of Wellington

PO Box 600, Wellington, NEW ZEALAND

Tel: + 64 4 463 5078

Fax: + 64 4 463 5076

Website: <http://www.victoria.ac.nz/sacl/cagtr/>

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Philip Colquhoun
Victoria University of Wellington
New Zealand

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Address for Correspondence:

School of Accounting and Commercial Law
Victoria University of Wellington
PO Box 600
Wellington
New Zealand

philip.colquhoun@vuw.ac.nz

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Abstract

This paper expands our understanding of the introduction of new audit arrangements in the public sector by looking at three cases relating to the audit of local government. The first case saw the Audit Office replacing the elected auditors as the sole auditor of municipalities in 1886; the second case saw the Auditor-General fail to gain additional powers to control the financial management of local government; and the third case saw the introduction of operational audits in New Zealand local government. Following Power (2003, p.391), the paper illustrates how legitimacy was sought in these three cases by using the three stages of controversy, closure and credibility. All three stages can be separately identified in the two cases that succeed, with the failure point for the unsuccessful case being identified as the controversy stage. The use of Power (2003) is viewed as useful in accounting history and it avoids the use of terms associated with auditing, such as independence and objectivity, being used to evaluate auditing practice and arrangements.

Keywords: Accounting History, Public Sector, Local Government Auditing, New Zealand

The Production of Legitimacy in Public Sector Auditing Policies – The Case of New Zealand Municipalities 1882-1980

1 Introduction

Accounting and auditing are in constant change. This paper expands our understanding of the introduction of new audit arrangements in the public sector by looking at three cases relating to the audit of local government. Following Power (2003, p.391), the paper illustrates how legitimacy was sought in these three cases by using the three stages of controversy, closure and credibility. Audit practices gaining legitimacy and the institutional arrangements for auditing including the choice of auditor gaining legitimacy are closely related issues (Power, 2003, p.390). This paper outlines how a proposal for the Audit Office, a central government department, to become the sole auditor of New Zealand municipalities in 1882 obtained legitimacy, how a proposal for an increase in the scope of the Audit Office oversight of local government finance failed ten years later, and thirdly how, beginning in the early 1970s, the introduction of operational audits for local government took 15 years to fully gain legitimacy. How auditing practices and arrangements gain legitimacy in the New Zealand local government context is all the more interesting as local government relies on central government for its mandate and authority, while at the same time local government fiercely guards its independence from central government interference.

Two of the cases saw the successful implementation of new requirements for local government auditing. These two cases are significant because they represent the two major changes to the auditing practices between the start of municipal corporations in New Zealand circa 1867 and the late 1980s. Other than these changes there were no significant changes to the auditing of New Zealand municipalities. The minor changes that did occur were the gradual changes in auditing technology such as the introduction of sampling as reflected in both public and private sector practice. The significance of the third case is twofold; firstly it failed to gain legitimacy and thus failed to be introduced, something relatively infrequently found in the accounting history literature and secondly had it been successful it would have been a significant change to local government audit and control requirements.

While Power (2003) has been widely cited in the accounting and auditing literature (for example Skærbæk, 2009; Gendron, *et al* 2007) the usefulness of the schema has not been evaluated in the accounting history literature. History can provide useful sites to evaluate

theoretical models, particularizing in a time and place that which has been generalized (Burke, 1993, p.23). This paper also contributes to our understanding of the conflicts around local government auditing from time periods before the audit explosion and in the public sector before new public management (Power, 1997).

The paper relies on archival and primary sources from the central government archives and parliamentary library. It uses records from the parliamentary processes including parliamentary debates records, parliamentary committee records and submissions to analyse the first two cases. For the third case files from the Controller and Auditor-General are the predominant primary source used.

The paper is structured as follows; the next section reviews the existing literature on the historical development of public sector auditing arrangements. Section three outlines Power's (2003) schema that will be used to interpret the three cases, and section four provides background on New Zealand local government and its political and constitutional arrangements. Section five analyses the three cases using Power's (2003) explanatory schema. The paper concludes by way of discussion and conclusion.

2 Existing literature

The literature on the history of public sector auditing can be divided into three types; histories of specific institutions or personalities, studies that focus on the origin and/or evolution of aspects of public sector auditing, and studies that focus on conflict regarding jurisdiction, scope or performance of audits. The majority of public sector studies are located at federal, national or provincial level, with very few studies dealing specifically with local government or parts thereof. Underlying most studies is an acknowledgement of the contested nature of auditing practices and institutional arrangements, with each type of study addressing the contested nature of audit in different ways.

Institutional histories and studies of important individuals share significant similarities with the other two categories; however their arrangement is often chronological and/or structured around the 'man at the top' at the time. Often these histories are of a more public history form than academic history, for example see Green & Singleton (2009), Trask (2001), Wanna, Ryan and Ng (2001) and Yule (2002). These histories often placed all aspects of the contested nature of the auditing practices and arrangements including the institution's origins, institutional arrangements, and internal and external conflicts in the context of the overall development or

evolution of the institution, treating the contested nature of audit as part of the fabric that makes up the organisation.

Studies from within the academy on institutions and important individuals often focus on the legacy of a particular person. For example Morecroft *et al* (2000) look specifically at the contribution to US government accounting and in particular the work on operational auditing of T Coleman Andrews. The study links the man, his era and his career to contemporary developments in US government accounting. Wanna and Ryan (2003) illustrate that the problems in subsequent periods of the Australian Audit Office can be seen in the legacy of the first Auditor-General. Funnell (1996) focuses on the resistance of one man, Lord Monteaule, to changes that would have strengthened the relationship between the British parliament and the state auditor. Recommendations made by a parliamentary select committee took ten years to be enacted because of influence of Monteaule in favour of the status quo. The paper highlights the importance of individuals and the power of elites, such as the Treasury, in the development of auditing practices in the public sector.

Studies focused on the origin or evolution of audit practice and institutional arrangements tend to either ignore the contested nature of auditing or view the outcome of the ‘contest’ as a win over lesser options or poorer arguments. McSweeney and Sherer (1990) and Flesher and Zarzeski (2002) review the origins of operational audits¹. McSweeney and Sherer (1990) focus on the origin of operational audits in the UK local government. Their study outlines that the development of the audits was based on an uncritical acceptance of the rationality of the audits and the causal relationship in local government performance measures; both assumptions which the paper critiques. Flesher and Zarzeski (2002) illustrates how the development of operational audits in the English speaking world occurred both simultaneously and independently in the US and Canada. According to Flesher and Zarzeski (2002) the technology subsequently transferred from Canada to other British Commonwealth countries. The study focuses on the leadership of a range of institutions and key people, including T Coleman Andrews and relies on official and profession literature.

Funnell (1994, 1997) outlines constitutional and parliamentary historical reasons for the development of the British government auditor. Funnell (1997) outlines the military influences on the development of public sector auditing. Focusing on the years between 1830 and 1880,

¹ Various terms have been used for non-financial audits including, performance audits, value for money, efficiency audits and operational audits; in this paper for simplicity sake I will use the later unless context demands otherwise.

Funnell argues that the audit arrangement of the military resulted from the Parliament's desire for greater control over the military through control of the military's spending, thus the military were subjected to more controls than other parts of the public sector. As the parliament sought greater control over all government departments the military's requirements were used as the template for such controls. Funnell (1994) discusses how the Treasury as an organ of the government maintained the limited independence of the state auditor despite moves by the parliament to strengthen the independence of the auditor and provide a closer relationship between the parliament and the state auditor. The paper highlights the role of the Treasury in the battle for an independent auditor between the parliament and the government.

Coombs and Edwards' (1990) history of the evolution of the UK district auditor focuses on the theme of the central government seeking an increase in the control it has over the activities of local government. This desire by central government to increase its control over local government seen as originating "many centuries ago" (p. 153). Audit and the district auditor were seen as an important part of this control over local government expenditure (p. 173).

The third group of studies illustrate conflicts in auditing and audit practice. These papers are the most explicit about the contested nature of auditing practices and institutional arrangements. The most frequently studied area is again operational audits. The Australian experience of operational audits has been subjected to significant review and in particular various interpretations of what the audit (should) consist of and how they should be undertaken (Hamburger, 1989; Guthrie and Parker, 1999). Similar studies of less historical nature include Sutherland (1980) and Radcliffe (1997; 1998) on aspects of the Canadian experience. Other studies have also focused on contested nature of public sector auditing, beyond operational audits. Coombs and Edwards (2004) discuss a power struggle over a hundred year period from 1835 for the right to undertake municipal audits between the elected audits, the district audits and the emerging accounting profession. Over that period there was a shift from the dominance of elected auditors to the district audits and a latter increase in the use of the accounting profession. Both Funnell (1998) and English and Guthrie (2000) focus on the conflict between the executive and its agencies and the auditor for control of the scope and applicability of the work of the Australian Auditor-General. Jacobs (1998) reviews a similar situation in the New Zealand context of competing for control of operational audits between Treasury and the Auditor-General.

The contested nature of auditing practices and institutional arrangements is found, either explicitly or implicitly, in most studies of public sector auditing arrangements and practices.

The majority of studies; be they focus on the importance or contribution of individuals or institutions, or debates over origins, practices or institutional arrangements; address the question of success in the adoption of proposed auditing practices and/or auditing arrangements in terms of out manoeuvring opposition or being a better option than alternatives. Papers will often refer to debates and successful proposals in terms such as the “relative merits” of alternative arrangements (Coombs and Edwards, 2004 p81), will chronological debates over alternatives as played out in public (see for example Coombs and Edwards, 1990; Guthrie and Parker, 1999) or use appeals to key concepts in auditing such as independence (Funnell, 1994). In contrast this study uses Power’s (2003) explanatory schema to further our understanding of the contested nature of public sector auditing. The schema does not rely on using references to the profession or auditing itself, rather uses concepts established outside auditing. The next section reviews Power’s (2003) schema.

3 Power (2003) - Producing Legitimacy

Power’s (2003) essay explores four themes in contextualist and critical audit research, focusing on the production of legitimacy. Legitimacy is required at both the level of the individual practitioner and field of practice, with the legitimacy of the auditor and the legitimacy of an audit practice considered co-produced. The introduction of auditing into new areas is the fourth theme that Power discusses, and is the focus of this study. Following Radcliffe (1999), Power suggests that when audit receives a new mandate it allows for professional reinvention and a “new legitimacy in the management hierarchy of control agents” (Power, 2003 p.387). Part of the process involves the acceptance of the knowledge basis of the auditor *qua* institution, prior to the acceptance of the individual auditor’s knowledge basis and legitimacy. Once the auditing practice has been legitimized the individual auditor can go about their work as legitimate.

Drawing on existing studies and based on categories currently in use in the science studies literature (controversy, closure and credibility) Power (2003, 391) provides an explanatory schema for addressing the acceptance and/or rejection of proposed auditing practices and arrangements. Controversy requires some event or crisis that will lead to a disturbance of the status quo. For the disturbance of the status quo to become a controversy it requires two necessary conditions; a proposal is different from the status quo and a large enough group of supporters for it to become a serious challenge to the status quo. Closure occurs when the controversy becomes the new status quo by obtaining consensus of those involved. An audit technique only becomes accepted as a ‘good’ technique once closure has been obtained. Credibility, the final step, is the linking of the new status quo with some external knowledge or

practice. The credibility results in a new normal or status quo being reached for the practice or arrangement. Often this new status quo is obtained through connections with external forces such as regulatory systems or alignment with particular bodies of knowledge or communities that have currency at the time. This step is important as it makes the new arrangement appear “natural, obvious and temporarily at least, uncontested” (Power, 2003 p.392).

One of the benefits of such a schema is that by using categories from outside the subject area of the study, namely audit, the researcher avoids using the terms of the subject area to evaluate the subject (p.390). Terms such as independence, professionalism and objectivity which are essential in audit are not used to evaluate proposals, as their meaning and relevance is intertwined with the acceptance of the proposals. The next section provides the background to the New Zealand local government at the times the three cases occurred, with the following section applying the explanatory schema to the three historical cases.

4 New Zealand Local Government

The three independent cases discussed below all relate to the auditing of New Zealand local government, with the first two cases focusing on municipalities. The first case to be discussed occurred in 1886, some 46 years after New Zealand became a British colony. By 1886 New Zealand was governed by its own Parliament based on the Westminster model. From 1876 New Zealand had a two tier government structure; an all powerful central government and a subservient local government. Local bodies in New Zealand over the period covered had no general power of competency and were therefore restricted in what activities they undertook. They were limited to the items that they were either required or authorised to undertake by legislation, including their accounting and auditing practices.

Local government in New Zealand has the responsibility for infrastructure services such as water and sewage services, local roads, and refuse collection and disposal, for social services, such as recreation facilities and libraries, and for the operation of a range of infrastructural trading activities for the local community. In contrast to a number of jurisdictions with which New Zealand is often compared; policing, health and education are not functions of territorial local government in New Zealand (Bush, 1995, ch.1). In addition there was a wide range of ad hoc boards that were included as part of local government such as harbour boards and pest boards. The vast majority of local government funds come from property rates and local charges, with only a small percentage coming from central government.

The key institution for these historical cases is the Controller and Auditor-General (CAG) and the department which that officeholder heads – the Audit Office. As a central government department of state the Audit Office has always been responsible for the audit of central government agencies. The Audit Office has a special relationship with central government; a relationship that ensures its independence is protected from interference by the government, to allow proper function of both its controller and its auditor roles. Its independence is safeguarded to a degree in legislation, where it indicates the Audit Office reports to the Parliament, not the government. How the Audit Office reported (or should report) on local government is covered in the following sections, as an integral part of the debates covering the mandate of the CAG in regard to local government.

5 Auditor Office as Auditor of Municipalities.

This section uses Power's (2003) three categories of controversy, closure and credibility to illustrate how in two of the three cases the proposed changes to audit practices or arrangements needed to go through a number of steps to become legitimate practices/arrangements. It also helps illustrate why one of the proposals failed.

5.1 1886 – Audit Office to be sole auditor of local government

The arrangements for the auditing of local government in 1886 New Zealand are found in two separate pieces of legislation. The 1876 *Municipal Corporations Act* and previous Municipal Corporations statutes provided for the election of two auditors by the burgesses. Eligibility for election as auditor was open to anyone, except bankrupts, criminals, those of unsound mind, elected councillors and the mayor, and those who had close financial connections with a council (employees and business). The election of auditors was to be held annually, with remuneration for the elected auditors set annually by the council prior to their election (s.95). The 1878 *Public Revenues Act* provided for the Audit Office to perform an audit on any borough (and any other body) that received a grant from central government, if required by the Governor (s. 33). The Act also specified that this was the only situation where the Audit Office was to audit a borough, unless required by other legislation.

This changed in 1886 when the *Municipal Corporations Act 1886* made the Audit Office the auditor of all boroughs. Two concerns can be attributed to the appointment of the Audit Office as auditor of local government, with both concerns relating to perceived problems of independence if using an auditor that is part of the local community. The first relates to the

need to control and prosecute illegal expenditure by local authorities, and the second relates to the use of central government funds by local government.

The genesis of the controversy or crisis can be traced back to 1881, when the CAG presented to Parliament a report titled “Report on the Audit of Public Revenues” (Controller and Auditor-General, 1881). The report was the result of a study conducted by the CAG into practices in Australian colonies. That report began to generate concerns in New Zealand about the wisdom of having auditors elected from within the boroughs. The CAG considered that the existing system of electing auditors from local ratepayers relied on the “accident of finding individuals of sufficient public spirit and independent position to become prosecutors for the wrongs affecting all” (p.153). These ‘wrongs’, as mentioned above, related to illegal expenditure or inappropriate claiming of central government grants. Municipal councils could only spend money when they had legislative authority to do so, and they could only engage in activities that were permitted by legislation. Prior to the 1886 legislation it was expected that the auditor or ratepayers would identify illegal expenditure and lead to legal proceedings against the elected councillors to recover illegal spending. The CAG believed, and convinced the legislators, that the prospect of this system working was limited; thus he created a controversy, with both a challenge to the status quo and an assembly of allies for his new proposal. In relation to the second issue, the use of central government grants, the CAG in his 1881 report illustrated his concern with reference to reported activities in one of the Australian colonies:

Where subsidies of public money are granted to local bodies the necessity of an independent audit becomes of additional importance. As an example of this, a case was mentioned to me by the Secretary to the Treasury in one of the colonies, of a Road Board which was said to have for years obtained the subsidy from the Government payable in proportion to the rates raised, and to have subsequently repaid the ratepayers their rates, and so secured the subsidy without the required local taxation. (Controller and Auditor-General, 1881, p.153)

Once again the status quo was challenged, in terms of the ability of existing arrangements of elected auditors to independently undertake their role. This was highlighted especially where an auditor might benefit financially as a result of his position as a local ratepayer and/or resident, should certain accounting/financial practices be undertaken. With the ease that the 1886 Bill was passed through Parliament, we can assume that the CAG and his allies had successfully created the controversy and gained closure by the time the Bill was enacted. In this case there is no evidence of any residual desire to renegotiate the new normal – that the Audit Office is the auditor of municipal authorities. This is all the more surprising because local government could be fiercely parochial regarding interference of central government in its affairs.

All that was left for the CAG and his allies to do was to gain credibility for the new arrangement; credibility is seen by linking to the wider environment. The CAG achieved this by re-defining his role in relation to local government and their audits;

It may be objected that any interference by a central authority with the proceedings of local institutions, violates the principle of local self-government, and removes from the people themselves that responsibility for the due care of their own interests which constitutes its chief value. But, on the other hand, it should be remembered that the powers vested in local bodies are not general or arbitrary, but are defined by law, and are granted for specific purposes. So long as the administration of the local authorities within the sphere of the duties imposed on them is left uncontrolled, it can hardly be said to be an interference with local government, if provision is made for restraining them from exceeding those duties. (Controller and Auditor-General, 1881, p.153)

Credibility was thus gained by aligning the Audit Office's role with concerns from those that were likely to be opponents, namely those who wanted to avoid central government involvement in local affairs. Using the controversy created by the CAG over the previous five years, since the release of his 1881 report, the CAG appealed to the 'best interest' of local government to justify his new powers. The controversy and the credibility share the same logic of avoiding wrong doing by local officials for the benefit of the local community.

5.2 1891 and 1892 – The Failure to Pass Audit Legislation

Within four years of the Audit Office being made the auditor of all local government bodies, the CAG sought in 1891 and again in 1892 additional powers and responsibilities in relation to local government. In 1891 the CAG had a Bill introduced into parliament that gave additional powers to the CAG in relation to local government financial management, especially around dealing with illegal transactions and associated penalties. A similar Bill was also introduced in 1892. Both of these Bills failed to be passed. Much of the content of the Bills had been foreshadowed in the CAG's 1881 Report to Parliament. That Report and both of these Bill ten years later had a strong emphasis on fraudulent and illegal activities and inappropriate accounting in local government. The report created the first part of a controversy, the disturbance of how people expect that local government politicians and officials may behave. The CAG raised the possibility that local government politicians and officials couldn't be trusted and that the CAG should be given a stronger and enhanced mandate to take action against wayward councils and councillors. There were already provisions that dealt with these issues in the legislation, but the CAG wanted stronger enforcement and penalty provisions and for those powers to be given to his office.

The response of the local government community (via Parliament) to the proposed legislation was forceful and direct. The majority of speakers against the Bill were representatives of electorates in cities and large boroughs. The most forceful speech against the first Bill was by

Henry Fish, member for Dunedin City, who was acknowledged during the debate “as an authority on municipal matters”. In a style he was noted for (Sinclair, 1993), Fish led the attack on the Bill and the Controller and Auditor-General in the following words:

This Bill appears to be a Bill of the most monstrous description ever presented to the House. I feel certain the Premier has never read the Bill; if he has read it he has not profited by the reading. It is not the Premier’s Bill; it is the Auditor-General’s Bill; he has drafted every line of it, and every line bristles with tyranny and autocracy of the most disgusting nature. Knowing that gentleman, however, as well as I do, I am not surprised that he has given us a Bill of this kind. I have no hesitation in saying, especially so far as Municipal Corporations are concerned, that the Bill is framed effectually for no other purpose than to hamper the finance, irritate the bookkeeping, and utterly demoralise the proper carrying-on of municipal functions. (NZPD, 1891 p.313)

Fish criticised various parts of the Bill and the person of the CAG, objecting to both in very strong terms. He saw such legislation (and the likely interpretation of it by the current CAG) as constraining the activity of local authorities, and claimed that legislation should be used to “extend, and not to cramp, the powers of local bodies”. Other speakers were less damning of the Bill, but even those indicating support, did not give it without some qualification.

The CAG’s concerns regarding the state of local body accounts, audit and financial management which had led him to prepare and submit the Bill to the government, were shared by many of the speakers:

That there is reason for a more strict audit than we have had in the past none of us, I think, will deny; but I hold at the same time, that the present Bill is too sweeping. (NZPD, 1891 p.315)

The 1891 Bill failed because the CAG had failed to gather sufficient allies around the disturbance. The following year a new Bill was introduced, which was considered by all to be less draconian. The 1892 Bill went through the parliamentary system with significant less agitation. It appears that there was the possibility of sufficient allies for the Bill to pass, but parts of the local government community were still against parts of the Bill. For example the Secretary of the Wellington Harbour Board suggested that the penalties were too severe and a disincentive to people to stand for election on boards and councils:

Businessmen give their time and abilities gratuitously, to the service of the public, on local bodies, and so long as they act in good faith they ought not to be subjected to the possible infliction of fines or of surcharges or have the onus cast on them of moving the Supreme Court for remission thereof (LE 1 1892/14).

Thus whilst creating a controversy, the 1892 Bill lapsed because parts of the local government community were not prepared to renormalize practice along the lines of the Bill; in Power’s (2003) terms closure was not obtained. Both the allies and opponents of the second Bill were not willing to see the provisions in the Bill become part of the arrangements for local government finance. This was partly surprising given there was support for the actual provisions of the Bill.

It seems likely that the problem was the CAG himself, not the Bill. The CAG, James Edward FitzGerald, was not universally admired. A politician before late in life becoming CAG, he was much more at home in “the cut and thrust of public controversy” (Bohan, 1998 p.305) than the neutrality of his role as CAG. It is possible that a different man could have negotiated with both allies and opponents to gain closure and then credibility for his proposal to grant additional powers to the CAG in relation to local government financial.

5.3 1980s – Operational Audits

The third and final case of new audit arrangements being proposed for New Zealand local government relates to the introduction of operational audits. In 1973 the Minister of Local Government, Henry May, began the process of obtaining Cabinet approval for operational audits of local government. May attributed his inspiration for the idea from the then newly introduced efficiency inspections of local councils by the State Government of South Australia. At this point there was a clear disturbance of the status quo, namely the expansion of the role of audit beyond compliance audits, with two very important and powerful allies for the proposal; the CAG and the Minister of Local Government. Clearly the controversy had been established, yet obtaining closure and credibility were many years away. While operational audits were tentatively introduced in 1974, it took another ten years for them to gain legitimacy. During these ten years, the CAG needed to convince both allies and opponents of his views on the purpose of the audits and the criteria to be used in assessing performance during the audits, thus creating a new status quo.

May and his central government colleagues’ intention for operational audits of local authorities was that they should be performed for the benefit of central government. The aim was to identify inefficiencies in local government, with the CAG reporting on these audits in the course of his normal reports to Parliament. A major concern for government at that time was the increased call by local authorities for additional funding from central government. The audits were regarded as a way of identifying inefficient authorities and providing justification for decisions not to agree to such authorities’ requests – if not as a way of rejecting all calls from local authorities justified by reference to a perception of inefficiency across the entire local government sector (AAWR w4351 7/2/4). This perception would be supported by the ‘objective’ work of the Audit Office on operational audits.

The Audit Office undertook the first audits with a very clear and different understanding of the audits from that of central government. The difference between the Minister’s objectives for the audits and the Audit Office’s was significant in three related areas. First, the Audit Office

viewed Cabinet approval for operational audits (AAWR w4351 7/2/4) as a request from the government to the Audit Office to undertake operational audits to which the Audit Office may or may not agree. It was not considered a directive from the government. Essentially, the Audit Office conceptualised its relationship with the government in such a manner that it retained power and initiative. Secondly, the Audit Office stated it would undertake the audits on its own initiative. Requests for operational audits from whomever, central governments, local government or citizens, would be evaluated by the Audit Office, but the decision to undertake the audit would be the Audit Office's:

These audits will be undertaken by the Office, or by persons reporting to it, on its own initiative and not on the directions or at the request of any Minister of the Crown or Department of State (AAWR w4351 7/2/4).

And thirdly, reporting would be to executive officers of the council, perhaps to elected council members, and then, if sector wide issues were found, they could be reported in the CAG's report to Parliament. The Audit Office policy, however, stated:

It is not envisaged at this stage that reports will be made to any Minister or Department (AAWR w4351 7/2/4).

In writing to the First Assistant Auditor-General in Canberra, the CAG wrote:

As regards reporting, time will no doubt produce a difference of opinion between us and the Minister. I suspect the Minister would like our activities to be directed to some extent to the chopping off of heads. Our interest will be in attempting to establish whether the standards of performance in a local authority's undertaking fall short of those which, from our pilot studies, we have found to be of an acceptable level. If such is the case, we would draw the attention of the local authority to those areas which we considered offered scope for improvements. Our attitude would also be one of problem-finding, not problem-solving. The latter would be left to a local authority's own officers or to consultants engaged by them. It would have to be a very extreme case of misadministration to justify our reporting to Parliament (AAWR w4351 7/2/4).

The Audit Office warmly welcomed the enthusiasm of the Minister (Henry May) for the operational audits, because he was an important ally in the introduction of the audits. Significant and essential support was also received from the Minister of Finance and the Treasury, including funding of the audits (Controller and Auditor-General, 1972-79). Yet, in spite of this support from the Treasury and the Ministers, the Audit Office chose its own path and philosophy for the audits. By 1982 the debate on the purpose of the audits was settled, the Audit Office outlined what it considered to be the purpose of the audits:

To assure the ratepayers that funds have been properly raised and properly spent.

To assist local government in improving the standard of management of public funds (AAKS 7575 w4991 36/19/2).

While the ministers and the Treasury had a different idea as to the purpose of the audits, and the Audit Office succeed in having its view prevail, all three parties were central in ensuring

both aspects of a controversy was present; the disturbance of the status quo and the sufficient allies for that disturbance.

With the controversy was being successfully created, the process of renormalizing practice or closure began in 1974. Subsequently more audits were undertaken, in a relatively quiet manner, drawing little attention to the audits other than in areas directly affected by them. The final push to gain closure came in the early 1980s, when the Audit Office began to fully document how the audits would be undertaken. Obtaining agreement on the methodology of the audits was perhaps the most acrimonious moment in an otherwise reasonably harmonious relationship between local authorities and the Audit Office. The disagreement was principally between the smaller (in terms of both population and finances) councils and the Audit Office.

The Audit Office sought to explain what and how the operational audits would audit through the preparation and publication of the *Suggested Criteria for Good Management Practice in N.Z. Territorial Local Government* (the *Criteria*) (Audit Office, 1981) in the early 1980s. The *Criteria* was an attempt to make transparent the rules for judgements that were to be made in operational audits. Following the release of the draft of the *Criteria* certain sections of local government took strong umbrage at parts of the document. The two key issues were: the application of the *Criteria* across all territorial local authorities, and questions concerning the Audit Office's involvement in such audits and the activities of local government.

The *Criteria* shared similarities with many of the Audit Office's concerns regarding central government that were expressed three years earlier in the *Shailes Report*, (Controller and Auditor-General, 1978) particularly the focus on the setting and reporting of organisational objectives. The *Criteria* specified that sound management (within the existing legislative framework) should provide clear lines of accountability within an organisation, provide for a separation of responsibilities between elected councillors and employees of a council, and set and review performance measures. Accounting was regarded as a major part of this management process.

The NZ Institute of County Engineers was critical of the *Criteria* on the basis that it recommended a single Chief Executive for each council. The practice in many county councils at the time was to operate a triumvirate system in which an elected county chairman worked with the county clerk and the county engineer; the latter two being of equal status. The Institute's argument was that the system worked well in smaller councils and that a 'one-size-fits-all' approach should not be applied to the entire territorial local government sector.

However, its motives may have been ‘closer to home’. In the penultimate sentence of the NZ Institute of County Engineers comment on the *Criteria* to the Audit Office, it wrote:

The Institute considers the Engineers, because of their training, are well fitted in the NZ scene to occupy major managerial positions (AAWR w4357 7/2/4A).

The rise of a local government managerial class to the relegation of the city/county engineer was occurring. Individual county/city engineers were concerned about their career promotion prospects and part of their professional association was also concerned for the status of that profession within local government. Public sector management reforms that began in New Zealand in the late 1980s, especially the application of managerialism, (Boston, *et al.* 1996 chapter 4) were foreshadowed by the work of the Audit Office, including the *Criteria*.

The second complaint was that central government, Wellington, or ‘Big Brother’, was becoming too involved in the affairs of local government. A senior local government official responded to the *Criteria* and was reported in his local press:

Taranaki’s local bodies should beware of giving the Audit Department ‘another club to thump local government with,’ warned the Mayor of New Plymouth and president of the Municipal Association (Daily News, 1980).

In response, the Deputy Auditor General presented the Audit Office’s view:

Audit Office has two responsibilities:

- (a) To taxpayer for central government funds,
- (b) To ratepayers for local government funds.

Note: The two should not be confused. When dealing with local government Audit Office is not a central agency, merely a Parliamentary appointed agency for auditing local government and reporting thereto to ratepayers. Only responsibility to parliament is to report that local government audits in the efficiency and effectiveness area have been done. All reporting is to council and to ratepayers. This is not a ‘big brother’ central government imposition, this is the ratepayers representative reporting to them (AAWR w4357 7/2/4A).

By 1984 the Audit Office had weathered the storm over the *Criteria*, with the Audit Office stating that it “considers that the publication [the *Criteria*] ... a success” (AAKS 7575 w4991 7/2/4/A). It measured the success in terms of discussion generated as a result of suggestions in the *Criteria*. That local authorities adopted many suggestions in the *Criteria* was not considered by the Audit Office to be the key outcome of its publication; rather, the fact that local authorities discussed management practice (as defined by the Audit Office) was regarded as the more important result. This process saw the ideas in the *Criteria* become part of the administrative or perhaps management language and milieu for local government and thus creating credibility for the operational audits, albeit some ten years after the first audits were undertaken.

6 Discussion and Conclusion

In two of the cases discussed, the proposals for additional powers for the CAG and Audit Office relating to local government were adopted and ultimately gained legitimacy. In the first case, granting the CAG the sole role of auditor of municipalities, legitimacy occurred with little conflict and almost immediately the bill was passed by the Parliament. This case has similarities to Coombs and Edwards (2004) study of the struggle for professional dominance in UK municipal auditing, albeit with a different form of analysis, as Coombs and Edwards (2004, p.82) seek to “understand why we do things, at present in a particular way”. In the second successful case, the introduction of operational audits, legitimacy was achieved only after significant debate on both the appropriateness of the Audit Office undertaking such work and on the *Criteria* that was to be used for the audits. As noted earlier there has been significant amount of research on various aspects of the operational audits; such as Funnell’s (1998) study at the institutional level and Guthrie and Parker (1999) analysis at the individual level, whereas this study has looked at process to gain legitimacy. The case to increase the power of the CAG that did not achieve legitimacy, despite two attempts, did so because none of the three stages, namely controversy, closure and credibility, were achieved.

The use of Power’s (2003) schema has avoided an analysis that could be circular. Central to auditing practice and institutional arrangements are notions such as independence and objectivity. The use of the schema has meant that the analysis did not refer to these notions essential to the field itself. Both the second and third cases were subject to significant debate. In the second case the CAG wanted the additional powers so that there was someone independent to hold local government to account; whereas the local government community didn't want the additional powers given to the CAG because they perceived the CAG was not objective. In the third case, the CAG perceived the operational audits as an independent objective audit on behalf of local government community; whereas many in local government saw both the audits and the approach as interference and providing central government with “another club to thump” them. The use of the schema has prevented the research “from being slave to the concepts and categories of the audit field itself” (Power, 2003 p.390).

Finally, this historical study has taken the generalised work of Power (2003) and evaluated it in three similar but distinct cases, illustrating both the usefulness of the schema for the specific and historical, and the utility of the specific and historical to evaluate the generalised (Fleischman, Mills and Tyson, 1996). The historical analysis has illustrated that the schema is useful, although the time patterns do not follow a strict form. The first case followed the

schema in reasonable logical manner. As the proposal was progressing it moved from one step to another. The controversy had been building for five years before the Bill was introduced to the parliament, and then moved reasonably quickly through the final two stages to gain legitimacy. Whereas the third case moved reasonably quickly through controversy, taking another 10 years to go through closure and credibility, with those two last stages being intertwined more so than either discussed by Power (2003) or seen in the first case. Furthermore the last two stages were not distinct but occurred in tandem, with the Audit Office seeking closure via quietly undertaking audits over a ten year period and credibility via the promotion and acceptance of the *Criteria*. The schema has been useful in organising parts of the three histories and at the same time allowing the specific in each case to be discussed and not overtaken by theory.

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