



AUDITOR GENERAL
VICTORIA

In the Public Interest



*150 years of the
Victorian Auditor-General's Office*

Peter Yule

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Foreword

The year 2001 assumed much significance for the Victorian Auditor-General's Office as it marked the 150th anniversary of the appointment in July 1851 of the first Victorian Auditor-General, Charles Hotson Ebdon.

In commemoration of this major occasion, we decided to commission a history of the 150 years of the Office and appointed Dr Peter Yule, to carry out this task.

The product of the work of Peter Yule is a highly informative account of the Office over the 150 year period. Peter has skilfully analysed the personalities and key events that have characterised the functioning of the Office and indeed much of the Victorian public sector over the years. His book will be fascinating reading to anyone interested in the development of public accountability in this State and of the forces of change that have progressively impacted on the powers and responsibilities of Auditors-General.

Peter Yule was ably assisted by Geoff Burrows (Associate Professor in Accounting, University of Melbourne) who, together with Graham Hamilton (former Deputy Auditor-General), provided quality external advice during the course of the project.

The publication of this history recognises and honors all those members of the Office, past and present, who have contributed to the work of the organisation. It provides testimony to their skills, dedication and commitment in helping to forge for the Office a reputation, both nationally and internationally, as a leading edge public sector auditing body acting at all times in the public interest.

Staff currently serving within the Office and those who will take their place in the future face the ongoing challenge of continually building on the great foundation now in place so that the Office is always seen by the Parliament and community to be meeting their needs and expectations in an exemplary fashion.

Readers of the next history of the Office, whether it occurs in another 20, 50, 100 or 150 years, will surely expect to see that this challenge has been successfully met. They will wish to find that the Office has continued to meet its obligations to Parliament and the community with distinction.



Wayne Cameron
Auditor-General



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For 150 years the Victorian Auditor-General's Office has played a central role in maintaining the accountability of the executive government and its agencies to the Parliament and the public. Researching and writing the history of the office has been a fascinating and fulfilling task, which would have been impossible without the help I received from many people. In particular I owe much to Jim Woods, Ted Bennett, Flav Belli, John Kehoe, Eileen Bell, John Whelan, Gwen Marks, Bruno Dinelli, Neville Eyre, George Rorke, Leon Fewster, Alan and Julie Meggs, Jim Wenmouth, and Una de Burgh.

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Sam Furphy did a wonderful job as my research assistant. He showed great flexibility and ingenuity in tracing sources and remarkable persistence in ploughing through many obscure documents to find valuable information.

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John Olesky and Kim Nolan guided the book from manuscript to finished product with skill and professionalism.

It was a great pleasure working with the office's history committee, Joe Manders (Assistant Auditor-General), Graham Hamilton (former Deputy Auditor-General), Geoff Burrows (Department of Accounting, University of Melbourne), and the late Jan Tranter. They were unstinting in their enthusiasm and support, while allowing me complete freedom in my approach to the history. The work of the committee, and the office as a whole, suffered a great loss with Jan Tranter's tragic illness and death in October 2001. She had provided much of the inspiration for the history and her calm and methodical ways were vital in guiding the project to fruition. She is greatly missed.

Note on spelling and terminology

We tend to think today that earlier generations were pedantic about spelling conventions and that there has been a recent trend towards simplification. This is not so. For example, during the research for this book the author noted that many words such as favour and harbour were, before the 1940s, almost invariably spelt without the phonetically superfluous 'u', as 'favor' and 'harbor'. The Geelong, Melbourne and Portland Harbour Trusts were **always** referred to as **Harbor** Trusts until the 1940s, and in the Auditor-General's reports as late as the 1970s. Similarly the belief that 'ize' endings are an Americanism is refuted by the fact that they were regularly used in official documents in the late nineteenth century. Frequently, a word such as 'recognise' might have been spelt with both 'ise' or 'ize' endings in the same paragraph of a document. These features of our changing language can be seen in many of the quotations in this book, which naturally replicate the original spelling.

As a rule the author has favoured the modern tendency toward minimal capitalisation, but he readily admits that he has not been entirely consistent.

A related issue is the name of the Victorian Auditor-General's Office. For most of its history it was generally referred to as the Audit Office, but in recent years it has been more commonly referred to as the Auditor-General's Office or the Office of the Auditor-General. The author has chosen to use the conventional usage for each period under discussion.



Prologue

It was decided to attack before dawn. At about 3.30 a.m. the troops were roused. ... In all there were 176 infantry and 100 cavalry. ... Captain Wise, with eighty-seven men of the 40th, led the main attacking party.

... Silently the force left the back of the Camp and skirted the flanking hills where, in the still night, stringy barks stood motionless. On the flat, gums gleamed bone white in moonlight. There was a haze which did not conceal but, without being spotted, Thomas brought his foot and mounted troops within 300 yards of the Stockade.

Shortly before dawn the 40th took up skirmishing order and began to move on the Stockade. Cavalry were on their left, mounted police on their right with riflemen providing cover from higher ground. Suddenly a shot rang out, a sentry, Harry de Longville, had fired it waking Lalor who shouted to his men to prepare for an attack ...

At 150 yards range, the two groups joined fire ...

The Stockaders' fire was so rapid and precise that the attackers wavered. A young bugler rallied the troops who wheeled on an angle and regrouped to his left, then Captain Wise led them in a determined frontal charge.

The Stockaders were running out of ammunition ... [and] with fixed bayonets and swords, redcoats stormed through the front of the Stockade cutting down diggers while cavalry broke through the rear. To the cheers of troopers and traps, trooper John King ... scaled the flag pole and tore down the insolent Southern Cross flag which was thrown from man to man and then trampled.

The mounted police, perhaps too well primed with rum, skewered the dead and wounded. One pikeman's corpse had fifteen wounds.¹

As the smoke clears and the cries of the wounded fade in our minds the more literal reader may well be wondering what the story of Eureka Stockade has to do with the history of the office of the Auditor-General in the State of Victoria. Although some historians have attempted to portray Eureka as a fight for democracy or the rights of the workers, the

generally accepted view is that the most important single cause of the miners' revolt was opposition to the high licence fees for gold-diggers.² But why was the government so determined to collect an unpopular tax at a time when the wealth from the goldfields had made Victoria by far the richest place in the world (on a *per capita* basis) and the government coffers should have been overflowing? The short answer is that the public finances of the colony were in disarray, with the government's expenditure greatly exceeding its revenue, leading Governor Hotham to believe that he had no alternative but to retain the mining licence as a source of revenue. One of the main reasons for the crisis in public finance in 1853–54 was the failure of the Audit Office to maintain any control of government expenditure. In particular, a new system for making government payments, introduced by the second Auditor-General, Hugh Childers, was a disastrous failure, leading to a period in which neither Treasury nor Audit Office had any real idea of the true state of the public accounts. The root causes of the failure of the Audit Office in this critical period can be traced back to a lack of clear definition of the functions of the office, the fact that the Auditor-General was a political appointment with political responsibilities, and Hugh Childers' grandiose conception of his role as Auditor-General. While auditing the public accounts might be widely seen as mundane and routine, the consequences of the Audit Office's breakdown in 1853 shows the critical importance of the audit function in the Westminster system of government.

Ironically, Hugh Childers was promoted before the full impact of his mistakes became clear, but his successor, Edward Grimes, had a different view of the position. Grimes chaired a finance committee which rapidly restored the government's finances and devised a new scheme 'for the keeping and rendering of the public accounts' that formed the basis of the *Audit Act 1857*. This act enshrined the basic principles of public sector auditing. The Audit Office became non-political and its functions were clearly delineated from those of the Treasury. The three Commissioners of Audit appointed under the Act could only be removed from office by the Parliament, not by the Executive, and they were given wide powers to investigate the activities of all government departments.

For over a century the Commissioners of Audit and their successors, the Auditors-General, carried on their functions efficiently, accurately and with a minimum of public awareness. Only on rare occasions, notably the constitutional crises of 1865 and 1878, did the work of the Audit Office attract any public attention. Over this lengthy period the office practised transaction-based auditing, which aimed to check every transaction of every government department every year. For most commissioners and Auditors-General the main aim of their work was to detect frauds and defalcations and ensure that all payments were properly authorised.

While transaction-based auditing was feasible with the small scale of government in the nineteenth and early twentieth centuries, in the post-war period it became increasingly difficult to carry out comprehensively and new audit philosophies had to be developed to meet the requirements of a large and complex public sector. These new philosophies

included the adoption of ‘risk-based’ auditing and also led the Audit Office to look beyond the financial reports of government bodies to analyse the efficiency and effectiveness of the delivery of government services. Almost inevitably this has been more controversial than the old transaction auditing and there have been more headlines about the office since 1981 than there were in the previous 130 years.

The greatest controversy in the Audit Office’s history came in the second half of the 1990s when the Coalition government, as part of its total restructuring of the public sector in Victoria, proposed a radical reform of government auditing. While supporters of these reforms saw them as improving the efficiency and cost-effectiveness of auditing, opponents believed that they represented an attempt to weaken the Auditor-General and remove the activities of government from independent scrutiny. The lengthy debate on the Kennett reforms gave the general public a greatly heightened awareness of the work of the Auditor-General’s office. Public sector auditing became politically contentious, with the role of the Auditor-General being the central issue in a by-election at Mitcham in 1997 and one of the main issues in the State election of 1999 that saw the defeat of the Coalition government. One of the first actions of the new government was to enshrine the powers and independence of the Auditor-General’s office in the Victorian constitution.

An important consequence of the debates of the 1990s was that the general public developed an understanding and appreciation of the importance of the role of the Auditor-General in our system of democratic accountability. As the Premier, Steve Bracks, said in introducing the legislation restoring the powers of the Auditor-General, ‘the need for an effective and independent Auditor-General is almost universally accepted as a hallmark of our democratic institutions’.³

¹ Desmond O’Grady, *Raffaello! Raffaello! A Biography of Raffaello Carboni*, Sydney, 1985, pp. 160–1.

² For example, Geoffrey Serle, ‘The Causes of Eureka’, in *Historical Studies: Eureka Supplement*, 2nd edn, Melbourne, 1965, pp. 42–55; Geoffrey Blainey, *The Rush That Never Ended: a history of Australian mining*, 2nd edition, Melbourne, 1969, pp. 51–54; Hugh Anderson (ed.), *Eureka: Victorian Parliamentary Papers, Votes and Proceedings 1854–1867*, facsimile edition, Melbourne, 1969. In his introduction Anderson suggests the licence fee was the ‘smouldering grievance’, the means of collection was ‘the source of friction’, and the Bentley affair was ‘the spark that ignited the whole thing’.

³ Parliamentary Debates (*P.D.*), vol. 446, p. 365, 11 November 1999.

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The origins of the office of the Auditor-General

As with most of our institutions of government, the concept of public auditing developed in Britain from medieval times.¹ In 1785 the British Parliament passed an act ‘for better examining and auditing the publick accounts of this Kingdom’ which established an Audit Commission consisting of seven commissioners appointed ‘for life’. This commission had a limited and strictly apolitical role in auditing the accounts of the armed forces and most government departments. However, this system was not initially adopted in the colony of New South Wales and it took many years of trial and error before a satisfactory system of public auditing evolved in the Australian colonies.

The financial arrangements adopted by the colony of Victoria after its separation from New South Wales in 1851 owed much to the experiences of the older colony. From the first settlement until the late 1820s, New South Wales experienced a range of financial problems including shortage of currency, widespread corruption, embezzlement and fraud, illegal taxation, unauthorised loans of public money to prominent citizens and a general lack of control and accountability for public revenue and expenditure.² A series of initiatives, some local and some emanating from London, addressed these problems during the 1820s and early 1830s, leading to the establishment of the system of public finance in place at the time of the settlement of Port Phillip.

The most important feature of the New South Wales system was the role of the Colonial Auditor, which gained far greater importance than in any other British colony except Mauritius. Held by William Lithgow from its inception in 1824 until after separation, this officer had ‘the entire financial state of the Colony under his eye’.³ A Scot born in 1784, Lithgow was a clerk in the army commissariat before taking charge of the accounts of

Mauritius, where he gained a reputation for the simplicity and accuracy of his work. In 1824 he was sent to Sydney as Commissary of Accounts and the following year he was appointed Colonial Auditor. In this position, Lithgow played a dominant part in every stage of the collection and expenditure of public funds. This role included the auditing of public accounts as well as many functions equating more to a modern minister of finance than an auditor-general. Among other things, the Colonial Auditor's office was responsible for the preparation of warrants for all public expenditure, and compiling financial statements and reports to send to London. Significantly, Lithgow was a member of both the Legislative Council and the Executive Council, a magistrate, a director of the Bank of New South Wales and even served occasionally as the Governor's private secretary. His was a political office, but what seems to modern eyes to be a clear conflict of interest between Lithgow's role as a member of the government and his duty to audit the government's accounts, aroused no recorded concerns at the time.

From 1836, as the government established a presence in the new settlements in the Port Phillip district, the financial arrangements of New South Wales were automatically adopted, with the Treasurer and Auditor in Sydney responsible for government finances. Captain William Lonsdale was the first resident magistrate at Port Phillip and was the chief agent of the government from September 1836 until the arrival of Charles La Trobe in late 1839. Among his many responsibilities, Lonsdale had general supervision of the financial affairs of what is now Victoria. Lonsdale was well-meaning and conscientious, but he had little idea of accounting and in September 1839 the government in Sydney appointed Robert Webb, the sub-collector of customs, as sub-Treasurer to handle all the revenue and expenditure for Port Phillip. However, Webb refused to sign the security bond required of those handling large sums of government money and the position then reverted to Lonsdale, who was looking for new duties following the arrival of La Trobe. By this time the government accounts were in total disarray as Webb had made no attempt to carry out his duties and Lonsdale had only a vague idea of what was required of him. Throughout 1840 William Lithgow wrote a series of increasingly irate letters to Webb asking him to finalise the accounts for 1839 — finally receiving them in January 1841 — and Lonsdale pleaded for Webb to give him the government account books, only to be startled to find that these consisted of one cash book.⁴

The disarray of public finance in Port Phillip in the early 1840s was just one of the problems facing William Lithgow. He was years behind in his accounts. This was due to the rapid growth in his workload with the new settlements at Port Phillip, the opening of Moreton Bay to free settlement, rapid pastoral expansion into the interior and a growth in the administrative functions of the government. In January 1842 he was four years behind in sending the accounts to London and Governor Gipps threatened him with suspension if there was any further delay. This prompted a high level of exertion and by October he had caught up with the backlog and answered all outstanding questions from the Colonial Audit Board in London. As soon as he had caught up with his work, Lithgow was faced with political attack. Before 1842 the members of the Legislative Council were all appointed by the Governor, but the *New South Wales Act 1842* provided that twenty-four of the thirty-six

members should be elected (including six from Port Phillip) and that the council should control most of the colony's expenditure. The new Council, elected in 1843, recommended that heads of departments, including Lithgow as Auditor-General, be made responsible to the Council rather than the Governor and, in 1845, passed a bill appointing a select committee of the Council for the audit of public accounts. Although the Governor refused assent to this bill, it indicated that the Auditor-General was now under wider scrutiny. Significantly, his relationship to the Legislative Council was that of a minister responsible for the work of a department, rather than of an independent auditor, responsible for the integrity of the public finances.



William Lonsdale, sub-Treasurer with responsibility for auditing public finances in Port Phillip, 1840-51.
(La Trobe Picture Collection, State Library of Victoria.)

The colony of Port Phillip suffered from a major depression in the early 1840s, but for the rest of the decade it grew steadily if not spectacularly. The machinery of government remained minimal, with a handful of local officials reporting to the larger bureaucracy in Sydney, which was responsible in turn to the Colonial Office in London. Lonsdale remained Sub-Treasurer for the entire decade and appears to have managed the public finances without any major problems — though even in 1850 the Audit Office in Sydney was still trying to explain to him the basic principles of double entry accounting.⁵ All public accounts had to be sent to Sydney for audit as there appears to have been no consideration given to the possibility of sending inspectors to audit accounts *in situ*. Accordingly the audit process

primarily involved detecting errors of allocation or calculation in Lonsdale's accounts. While some of these errors involved large sums of money, most were trivial and the amounts concerned would not have covered the postage costs involved in querying them. This example is typical of many:

Audit Office Sydney to Lonsdale, 8 November 1850.

Sir,

With reference to your account of disbursements, out of the General Revenue, for the month of August last, Voucher No. 222, I do myself the honor to point out, that, the amount paid to Samuel Howlett for supplying 3,486 feet of Sawn Timber at 30/- per hundred feet is £ 52.5.9; whereas that quantity of timber at the specified rate computes to £ 52.5.8, only.

An overpayment of one penny has therefore been made, which, it is requested, that, you will have the goodness to recover.

The Cash Book for the month of August, not having been forwarded to this office might I request you to cause this error to be corrected.

I have the honor to be

your humble and obedient servant

William Lithgow.⁶

Clearly, Lithgow did not allow considerations of materiality to interfere with his work.

From the early 1840s the residents of Port Phillip became increasingly dissatisfied with the distant administration in Sydney. They felt that they were unfairly treated financially, contributing far more in taxation than they received in government expenditure. This feeling was reinforced by the unwillingness of the Sydney administration to finance basic public works or set up local government institutions in Port Phillip. Although Port Phillip had six representatives in the Legislative Council, it was always difficult to find suitable candidates who were willing and able to spend months at a time in Sydney, when members were unpaid and the journey was long and dangerous. However, resistance from Sydney and indifference in London, compounded by the fact that an exchange of letters with England might take over twelve months, delayed separation until the end of the decade. The news that Port Phillip was to become a separate colony, named for the Queen, was received in Melbourne on 11 November 1850 and Victoria began its independent existence on 1 July 1851.⁷



*Government offices, cnr William and Lonsdale Streets, first home of the Audit Office.
(La Trobe Picture Collection, State Library of Victoria.)*

The legal framework of the new colony had been set by legislation of the British Parliament and the New South Wales Legislative Council, while the administrative arrangements were initially continued largely unchanged from those in place prior to separation. As in New South Wales, public finance was the responsibility of the Treasurer and the Auditor-General, both of whom were appointed members of the Legislative Council. The boundaries between the treasury and audit functions were blurred and the subject of frequent dispute. Victoria followed the New South Wales precedent of a politically appointed and politically involved Auditor-General with wide responsibilities for public finance. The first six years after separation revealed that this model had serious problems, leading to a reappraisal of the philosophy and scope of public auditing and a major restructure of the Audit Office.

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- ¹ The development of public auditing in Britain is briefly summarised in Robert Longhurst, *The Plain Truth: a history of the Queensland Audit Office*, Brisbane, 1995, pp. 1–4.
- ² These problems are briefly summarised in the introduction to Ian MacFarlane (ed.), *Historical Records of Victoria*, vol. 7, *Public Finance of Port Phillip, 1836–1840*, Melbourne, 1998, pp. xvi–xviii.
- ³ Sir Thomas Brisbane to Earl Bathurst, 2 October 1824, in *Historical Records of Australia*, series 1, Sydney, 1914–25, vol. 11, p. 379.
- ⁴ See *Public Finance of Port Phillip*, ch. 5 ‘Handling Government Funds, 1837–1840’, particularly, Report of the Treasurer and Auditor-General on payment of accounts at Port Phillip, 4 February 1839; R.S. Webb to La Trobe, 19 Nov. 1839; La Trobe to Colonial Secretary, 27 November 1839; William Lonsdale to Colonial Secretary, 30 April 1840; Auditor-General to Webb, 12 September 1840, 29 October 1840.
- ⁵ Victorian Public Record Office, PRO VPRS 7, item 14, letter 13; Audit Office Sydney to Lonsdale 28 January 1850.
- ⁶ PRO VPRS 7, item 14, letter 129.
- ⁷ The course of the separation movement during the 1840s is outlined in A. G. L. Shaw, *A History of the Port Phillip District: Victoria Before Separation*, Melbourne, 1996, ch. 12.
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Foundation of the Auditor-General's Office, 1851-52

At the time of separation, Victoria was little more than an enormous sheep run. The white population at the end of 1850 was less than seventy thousand, while the colony had about six million sheep. Wool provided over ninety-five per cent of export income and directly or indirectly was almost the only source of employment. The government revenue of £260,000 for 1850 came almost entirely from the sale of Crown lands and duties on imports, while immigration subsidies formed the largest item of expenditure. For those who planned the establishment of Victoria as a separate colony, there was no reason to believe that there would be any major change in the foreseeable future. The only major political issue after the achievement of separation was the terms on which the squatters would be given tenure of their vast runs.

This peaceful pastoral idyll was shattered with extraordinary suddenness.

On 18 October 1851, Hugh Childers, a young graduate of Cambridge University (who later became Victoria's second Auditor-General) wrote to his sister in England:

Among our neighbours in New South Wales the gold digging commenced in May last ... but it was not until the middle of September that any great discoveries were made here. When they were made it was almost incredible. The great diggings were, and are, at Ballarat ... and at first the whole of the adult male population began to take flight thither. In a week's time six or seven thousand people were digging, washing and prospecting ... Of course, we who could not move were in great doubt as to what would happen, prices having frightfully risen ... and servants giving notice.¹

The discovery of gold had an overwhelming impact on every aspect of life in the new colony. The population trebled in three years and by 1858 half the white population of Australia lived in Victoria. The official value of gold mined in the first full year of the gold rushes was over £9 million and gold rapidly overtook wool as Victoria's leading export. Melbourne's population grew from 23,000 in 1850 to 130,000 in 1858, surpassing Sydney as Australia's largest city, and for several years it was one of the world's busiest ports. Victoria changed from a remote and little-known backwater to being, on a *per capita* basis, the richest place in the world.

Through all this tumultuous growth, Lieutenant-Governor La Trobe and the tiny educated elite responsible for governing Victoria strove to create a framework for government and public finance. This would have been a challenge in a stable society; in the turmoil of the gold rushes, it is not surprising that they did not get everything right. It was in this period of unparalleled uncertainty that the office of the Auditor-General was established.

The act of the British Parliament that separated Victoria from New South Wales placed only four restrictions on the power of the government of the new colony. Two of these related to financial matters:

No law is to appropriate to the public service any sum of money unless the object has been specifically recommended to the Council by the Governor on Her Majesty's behalf.

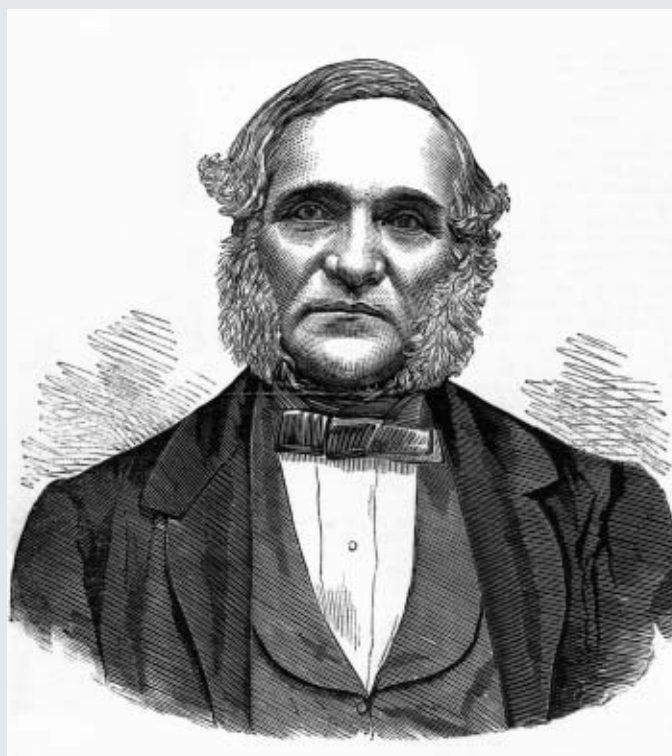
No law is to authorise the issue of public monies except in pursuance of warrants under the hand of the Governor, directed to the Treasurer.²

Within these confines the government of Victoria was carried on under the acts and ordinances in force in New South Wales at the time of separation, until specifically Victorian legislation was adopted. Consequently the office of Auditor-General began on the New South Wales model developed under the influence of the powerful personality of William Lithgow.

On 15 July 1851 Lieutenant-Governor La Trobe announced the senior appointments to the new government, with Charles Hotson Ebden, Esq., as Auditor-General appearing third on the list behind William Lonsdale, Colonial Secretary and Alastair Mackenzie, Colonial Treasurer.³ No evidence has come to light concerning La Trobe's choice of Ebden, but the appointment appears to have been non-controversial and aroused only brief and favourable comment in the press. An immensely wealthy squatter and businessman, Ebden had previously represented Port Phillip in the Legislative Council in Sydney and had a reputation for his understanding of financial matters.

CHARLES HOTSON EBDEN

In May 1837 Thomas Walker, a Sydney merchant, met Charles Ebden travelling in the bush, and wrote a vivid description of a hairy, bearded squatter dressed flamboyantly in fur-skin jacket and cap, walking at the head of 9,000 sheep.⁴ This is the first recorded description of the first Auditor-General of Victoria. Charles Ebden was born in South Africa in 1811, the son of a prominent merchant in Cape Colony. Educated in England and Germany, Ebden came to Australia in 1832 with sufficient capital to set himself up as a squatter. In 1835 his overseer established the first sheep run south of the Murray at Bonegilla and by early 1837, Ebden himself arrived in the infant settlement of Melbourne, and soon after established a run on the Campaspe River west of Mount Macedon.



Charles Ebden, Auditor-General, 1851-52.
(La Trobe Picture Collection, State Library of Victoria.)

In June 1837 at the first Melbourne land sales, Ebden purchased three half-acre lots on the north side of Collins Street between Queen and William Streets for a total of £136. Two years later he sold one block to the Bank of Australasia and subdivided the other two into small allotments, for a total return of over £10,000. Adjourning to the Melbourne Club after the sale, he commented, 'I fear I am become disgustingly rich'. Ebden always maintained his pastoral interests, buying and selling many runs in the 1840s and 1850s, invariably at a healthy profit. Strangely one of his transactions led to the development of one of the most

significant literary careers of colonial Australia. In partnership with his son-in-law, Theophilus Keene, Ebden had a run known as Reedy Lake of 370,000 acres south of the Murray around Swan Hill. In 1858 they subdivided the run, selling one lot to Thomas Browne, a squatter from south-west Victoria, for £24,000. Browne, having paid far too much for the run, soon became insolvent and turned to writing, under the pseudonym Rolf Boldrewood, to support himself and his family.⁵ Possibly in revenge, a character called Carl Hotson, with many of Ebden's characteristics and mannerisms, appears in one of Boldrewood's novels, *A Colonial Reformer*.

From his arrival in Melbourne, Ebden was a leading figure in society and politics. In 1843 he headed the poll for the Port Phillip District in elections for the New South Wales Legislative Council and he was re-elected in 1848 and 1850, despite having resigned in 1843 and late 1848 in protest at the poor treatment of Port Phillip. In politics he represented the squatting and mercantile interests and campaigned strongly against the transportation of convicts to Port Phillip and in favour of the separation of the district from New South Wales. Charles Ebden was a leading figure in many of the early institutions of Melbourne, including the Melbourne Club and the Melbourne Hospital and was also a director of the Bank of New South Wales and a promoter of several early railway companies. In 1856 he built Black Rock House on his 122 acre bayside estate. The house is still standing, having been sensitively restored by its current owners, the City of Bayside.⁶

Charles Ebden was one of the most notable characters of early Melbourne. Described as 'Immensely rich and immensely pompous', Ebden modelled himself on the Regency dandies of London. He disliked green vegetables and gloried in his reputation for clever epigrams. On one occasion a new arrival in the colony asked him if he were related to the great Mr Ebden, to which Ebden replied, 'I am myself, sir, that happy individual'. He would be delighted that three of his epigrams are included in the *Dictionary of Australian Quotations*.⁷

However, the pompous and dandified exterior did not fully mask Ebden's shrewd business mind and sound political instincts, and his appointment as Auditor-General in the first government after separation was widely approved. Following his resignation as Auditor-General in October 1852, he became immersed in business affairs for several years and then undertook a lengthy trip to England, before returning to politics in the late 1850s. He became MLA for Brighton in 1857 and was Treasurer in the second Haines ministry from April 1857 to March 1858. Poor health led to his retirement from politics in 1861 and Ebden spent five years in England before returning to Melbourne in 1866. He died suddenly at the Melbourne Club in October 1867, leaving a wife, three children and a fortune of well over £100,000. Geoffrey Serle described Charles Ebden as 'a clear and logical speaker who deserved his reputation as a sound financier. He was a leading member of the conservative, pre-gold, Anglican ruling class and the ablest political representative of the squatters of his time.'⁸

We have no statement of Charles Ebden's conception of the role of Auditor-General, but the precedent of New South Wales and his own actions indicates that he supported the view of a politically appointed and politically involved Auditor-General with wide responsibilities for public finance. Like most senior government officials, Ebden was also a member of the Legislative Council, appointed by the Governor and expected to support the policies of the government. He had no security of tenure, being liable to instant dismissal by the Governor. Essentially, he was not an independent auditor of the public finances, but an agent of the government, whose role was to supervise the collection and expenditure of government funds.

The first Auditor-General had minimal staff. A list of those holding government appointments between July and December 1851 names the pioneer staff of the Audit Office:

PIONEER STAFF OF THE AUDIT OFFICE, JULY – DECEMBER 1851

<i>Name</i>	<i>Title</i>	<i>Date of appointment</i>	<i>Salary</i>
Charles Ebden	Auditor-General	1 July 1851	£600 p.a.
Charles Symonds	Chief Clerk	1 July 1851	£220 p.a.
Henry Ardlie	3rd Class Clerk	1 July 1851	£120 p.a.
A.H. Caldecott	Extra Clerk	16 July 1851	5/- per day
George Buckley	Extra Clerk	1 Sept 1851	5/- per day
unnamed	Messenger	15 July 1851	£30 p.a.
Sarah Griffin	Housekeeper	15 July 1851	£20 p.a.

Sarah Griffin was the first woman to work in the Audit Office and the disparity between her pay and that of the Auditor-General shows that the gap between rich and poor is not new.

Charles Symonds, the Chief Clerk, was born in England in 1818, the fourth son of Samuel Symonds, a surgeon in the Royal Navy, and his wife Mary. His father died in the year Charles was born, although his mother lived until 1872. Charles, his mother and his brother Edward migrated to Australia in 1836 and in April 1839 Charles became a clerk in the Audit Office in Sydney. In 1851 Charles and Edward moved to Melbourne where separation from New South Wales opened up many opportunities. Edward became a commissioner of Crown Lands and rose rapidly to become Under-Treasurer in 1857, a position he held until his retirement in 1887. Charles Symonds was recruited by the new Victorian government to help establish the Audit Office. For some reason he seems not to have settled comfortably in Melbourne, as the municipal directories record frequent changes of address and show that for several years he lived in hotels. However, he was diligent and meticulous in his work, successfully avoiding criticism or controversy for many years. As Charles Ebden was heavily involved in politics as well as maintaining his own extensive business and pastoral interests and the leisured lifestyle of a gentleman, Symonds was almost solely responsible for the day to day running of the Audit Office and the conduct of most audits. In the early

years of the office he signed most correspondence on behalf of the Auditors-General, as well as liaising between the Audit Office and major government departments.

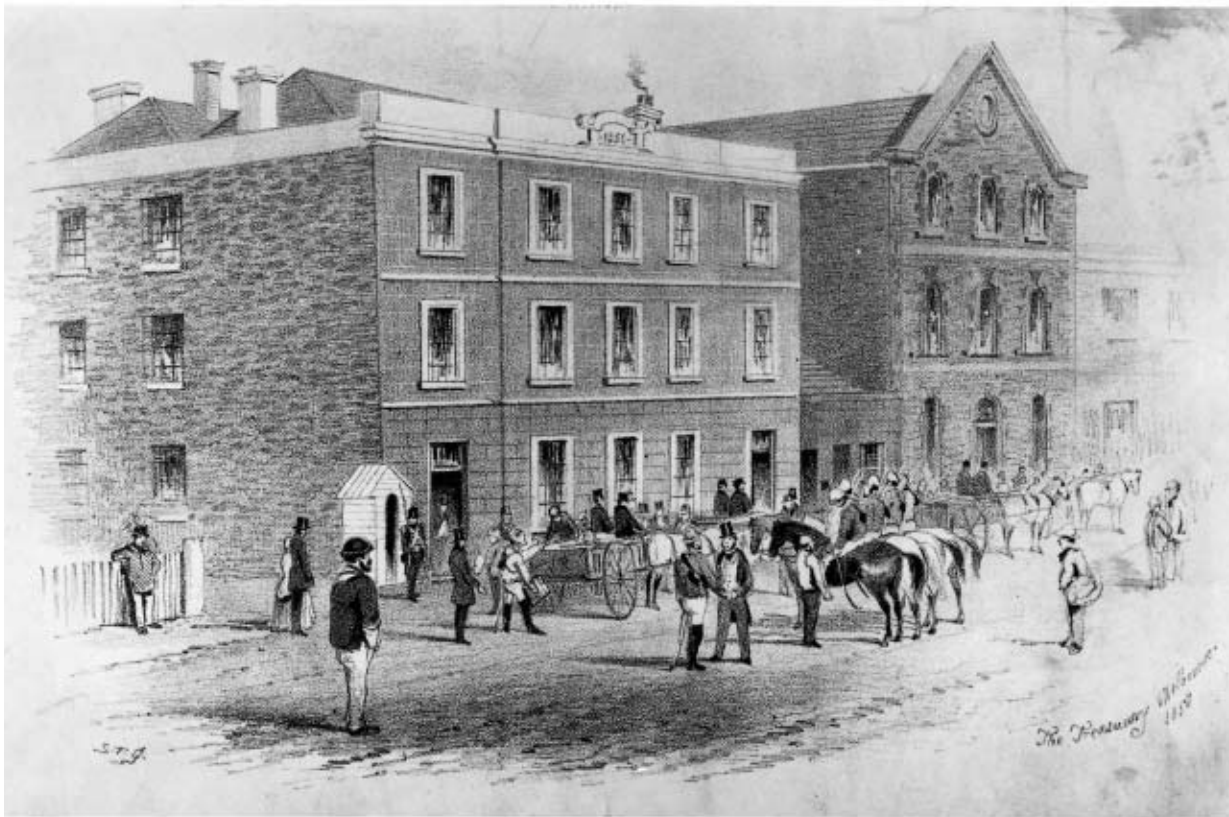
Although we have no specific information on working conditions in the early days of the Audit Office it is likely that they resembled the rest of the public service. Most appointments were based on nepotism and cronyism rather than merit and examination. There was an assumption that a civil servant should be a 'gentleman' as defined by his breeding, connections and manners, but no formal qualifications were required.⁹ Consequently, as Geoffrey Serle observed, 'The civil service was packed with drones and was a haven for gentlemen who found the diggings neither as romantic nor as profitable as they had expected.'¹⁰ In 1887 a civil servant looking back on the 1850s commented that:

A government billet in those days was about the softest thing a fellow could drop into. He was not supposed to strain himself or overwork his intellect. Hence routine work was the staple of a government officer's employment, and if anyone in the service displayed a taste for activity of reform ... he was soon made to feel that he was a rebel and a revolutionary and so dangerous a type as to require a warning.¹¹

The usual hours in the public service were 10.00 a.m. to 3.00 p.m.

The original location of the Audit Office was in the complex of government offices on the south-eastern corner of William and Lonsdale Streets (now the site of the Supreme Court), although it is unclear whether the Audit Office was in the two-storey granite building on the corner or one of the weatherboard buildings around it. Built in the mid-1840s, these offices quickly became inadequate following the discovery of gold and a new Treasury building was constructed diagonally across Lonsdale Street near the present Magistrates Court. Presumably the Audit Office moved into this three-storey bluestone structure, where it stayed until 1862. A feature of the new building was a large strong-room where the early consignments of gold were delivered, although it proved inadequate to hold the vast amounts sent down from the goldfields during the 1850s.

We know very little about the functioning of the Audit Office in its earliest months. The primary role of the Auditor-General in this period was to work with the Treasury on every aspect of public finance from framing the estimates and carrying the Budget through the Legislative Council, to overseeing all government expenditure and compiling the government accounts at the end of the year. The boundary between the functions of the Treasury and the Audit Office was vague and undefined, and the latter tended to dominate because Charles Ebdon was a competent administrator and an experienced politician, in contrast to the Treasurer, Alastair Mackenzie, a nonentity, who had a rapid and inexplicable rise from being deputy sheriff in 1847.



Treasury building, William Street, home of the Audit Office, 1852-1861.
(La Trobe Picture Collection, State Library of Victoria.)

Given the major role of the Audit Office in the formulation and implementation of government financial policy, combined with its small staff, it is most unlikely that the office could have inspected the accounts of all the government agencies across the colony. Even if the staff had been available, the difficulties of travelling before railways were built would have made regular audit inspections virtually impossible in most areas. At a time when almost all would-be gold miners walked from Melbourne to Ballarat, Bendigo and the other rushes, and horses provided the most rapid form of inland transport, it would not have been practical to send an auditor to inspect the accounts of the collector of imposts at Flooding Creek or the postmaster at The Grange. With the discovery of gold the problem worsened as diggers swarmed from one rush to the next, with the goldfields commissioners desperately trying to keep up with them. But it seems unlikely that auditors would have followed the diggers and the issuers of miners' licences to Whroo, Moliagul, Fiery Creek or Eldorado. Presumably, the audit process relied on the myriad of country revenue collectors, licence issuers, postmasters and other agents of the government sending their cash books, receipts and vouchers to Melbourne for audit.

As there are no surviving Audit Office records from this period, the few letters from Charles Ebdon's short tenure as Auditor-General are those preserved in the Treasury records. The first surviving letter dates from September 1851. It is of little importance except perhaps

as evidence that Ebden addressed some of the practical issues involved in starting a new government:

Ebden to Colonial Secretary, 6 September 1851.

Sir

As it will be necessary almost immediately to make remittances to England, on account of Land and Immigration, for the past months of July and August, I do myself the honor to bring under the notice of His Excellency the Lieutenant Governor, the propriety of instructing the Honourable the Colonial Treasurer, to make arrangements with the three local Banks, to grant their drafts on England at par, whenever they may be required for the Government and to do all other banking business for the Government without charge.

I have the honour to be
your humble and obedient servant

C.H. Ebden
Auditor-General¹²

The only other surviving letters refer mainly to the mundane and everyday matters of the audit process. A typical example concerned funds collected by clerks of courts:

Ebden to Colonial Treasurer, 26 March 1852.

Sir,

It having been found by the examination of your Accounts of the receipts of the General Revenue since 1st July 1851 that certain sums amounting in all to ninety-six pounds and four shillings, as shewn by the accompanying Statement, which are stated as having been collected by the Clerks to the Benches at Alberton, Belfast, Chipston, and the Grange, have not been credited to the public in your accounts above mentioned. I do myself the honour of requesting that you will be good enough to explain this apparent discrepancy at your earliest convenience.¹³

The Treasury ignored this letter, prompting this fiery blast from the Audit Office.

Ebden to Colonial Treasurer, 20 May 1852.

Sir,

Referring to my letter No 37 of the 26th March last, [see above] I do myself the honor of pointing out that no communication has yet been received from you upon the subject therein treated of.

May I request, that, for the purpose of enabling me to report on the matter to the Lieutenant Governor, you will be good enough to favor me with a reply at your earliest convenience – and state what steps you have considered it necessary to adopt with a view to bring the sums in question to account.¹⁴

Unfortunately no further instalment of this correspondence survives, so we do not know whether the Treasury complied with the Audit Office request or continued to ignore it.

The work of the Audit Office throughout Ebden's tenure as Auditor-General was dominated by the impact of gold. Government revenue and expenditure expanded exponentially, leading to a vastly increased workload for the office. This was exacerbated by the general chaos of the period. Many public servants abandoned their posts and headed for the diggings, making the auditors' tasks more difficult — auditing the accounts of the clerk of courts at Kilmore was not easy if there were four holders of the office in a year (three of whom were functionally illiterate) and it was vacant at the time of the audit. Maintaining any sort of audit of government revenues in the goldfields themselves was even more difficult. Word of a new find might lead to a rush of tens of thousands of diggers to a district that might not even have had a name previously. The goldfields commissioners would follow attempting to maintain order and collect licence fees, but with little prospect that they could keep orderly accounts. Turmoil prevailed even in the government departments in Melbourne. Large numbers of public servants headed for the goldfields, while those who remained had to deal with the myriad problems the gold discoveries caused for government — as the population and wealth of the colony rose exponentially, the scale of government activities had to rise to provide essential services and infrastructure.

One of the most serious problems, and the area that was to cause the greatest concern to the Audit Office, involved public works. The discovery of gold led to an enormous increase in the demand for public works — roads, bridges, post offices, government buildings of all types — while causing critical shortages of labour and materials. It became impossible to obtain reliable tenders from contractors and many vital works could only be completed by employing day labour at high rates and buying building materials for cash. To compound the problem, Governor La Trobe frequently gave verbal instructions for public works that were not followed by formal authorisation or appropriations. James Balmain, the government architect, told a Legislative Council inquiry that his department had half finished major extensions to the Melbourne Post Office before receiving proper authorisation to begin.¹⁵ Naturally these highly irregular proceedings were anathema to the Audit Office. Referring to Balmain's predecessor, David Lennox, Charles Ebden wrote, 'If Mr Lennox is going to spend money in this way, the sooner we get shut of him the better.'¹⁶ However, the reality was that the machinery of government in the new colony was proving incapable of dealing with the extraordinary circumstances brought about by the discovery of gold and the tiny Audit Office had a nearly hopeless task in trying to maintain correct procedures in public spending.

Strangely, the Audit Office staff largely resisted the lure of the diggings. Whereas in most departments so many public servants left after the first gold discoveries that work ground to a halt, none left the Audit Office until March 1852. During 1852 the staff of the office expanded from six to fifteen and only five clerks left during the year. This would be a rapid staff turnover in normal times, but in gold rush Victoria it represented remarkable stability.

The explanation can only be speculative. Were the auditors too dedicated to abandon their vocations, or perhaps intimidated by Governor La Trobe's announcement that public servants who left their posts would not be re-employed, or possibly persuaded to stay by the bird in the hand of substantial pay rises rather than hunt for birds in the bush at the goldfields?


Of the original staff, Charles Symonds remained at his post as Chief Clerk, but Henry Ardlie and A. Caldecott both left, presumably for the diggings. George Buckley, originally an 'extra clerk' received rapid promotion, and he was joined by many new clerks. Some, such as Edward Simpson and C.H. Manton, stayed only a few months before succumbing to the lure of gold, but others such as Arthur Bible, Samuel Thomas and William Brooks remained for many years. One of the new appointments, Edward Symonds, is notable as possibly the youngest person to work in the Audit Office. Young Edward, the son of a senior public servant, Edward Stace Symonds, and nephew of Charles Symonds, was only thirteen when he joined the staff as a messenger in February 1852. He remained with the public service for his entire career, rising to be Receiver and Paymaster to the Treasury in the 1890s.¹⁷ The only woman on the staff in 1852 was Sarah Griffin, the housekeeper, with her son, Richard Griffin, also being employed as a messenger.

La Trobe's administration in the first two years after separation was widely regarded at the time as being lamentably weak. Of the senior government officers, only two were seen as being competent — William Stawell, the Attorney-General, and Charles Ebden, the Auditor-General, who was the government's 'chief financial policy-maker' and its outstanding spokesman in the Legislative Council.¹⁸ However, La Trobe did not get on well with Ebden, finding that he had 'peculiarities of temperament'. As a result he would not have Ebden as a member of the Executive Council and refused to promote him when the Treasury became vacant. By October 1852 Ebden had tired of having responsibility without power, and resigned.¹⁹

During his fifteen months as the first Auditor-General, Charles Ebden gained a reputation as an astute politician, with a sound grasp of public finance. However, looked at from the point of view of the development of the Audit Office, his term must be assessed as a failure. The Victorian Audit Office adopted without question the model developed by William Lithgow in New South Wales. While this system had worked moderately well under Lithgow, it had a fundamental problem. Neither Lithgow nor Ebden ever appear to have seen a conflict between their political role as representatives of the government and the concept of the Auditor-General as an independent auditor of the activities of the government. Under Ebden, the emphasis of the Audit Office was on its political role and it became deeply involved in the broad financial policy of the government. However, he does not appear to have established firm guidelines for the functioning of the office and, as a result, it proved impotent when the public finances descended into chaos during 1853 and 1854.

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- ¹ Quoted in Jean Uhl, *A Woman of Importance: Emily Childers in Melbourne, 1850–1856*, Melbourne, 1992, pp. 19–20.
- ² An Act for the better Government of Her Majesty's Australian Colonies, quoted in Edward Jenks, *The Government of Victoria, Australia, London, 1891*, p. 141.
- ³ The second and third Auditors-General also received official appointments in July 1851, with Edward Grimes becoming Clerk of the Executive Council and Hugh Childers being confirmed in his appointment as Inspector of Schools.
- ⁴ Quoted in Richard Broome, *The Victorians: Arriving*, Sydney, 1984, p. 21.
- ⁵ Paul de Serville, *Rolf Boldrewood, a life*, Melbourne, 2000, p. 92.
- ⁶ The suburb Black Rock was named after Black Rock House, which in turn was probably named after Blackrock Castle near Dublin, associated with Mrs Ebden's childhood. For more information on Black Rock House, see Mildred Fowler et al, *Black Rock House*, Sandringham Historical Series, no. 2, 2nd edn., Sandringham, 1988. I am grateful to Murray Thompson, MLA for Sandringham, for bringing the history of Black Rock House to my attention.
- ⁷ Stephen Murray-Smith, *The Dictionary of Australian Quotations*, Melbourne, 1984, p. 73.
- ⁸ Geoffrey Serle, 'Charles Hotson Ebden', in *Australian Dictionary of Biography*, vol. 1, Melbourne, 1966, pp. 349–51. Other sources for Ebden's career include, Shaw, *A History of the Port Phillip District*, and Paul de Serville, *Port Phillip Gentlemen*, Melbourne 1980. For details of his pastoral holdings, see R.V. Billis and A.S. Kenyon, *Pastoral Pioneers of Port Phillip*, Melbourne, 1932.
- ⁹ For a discussion of what made a 'gentleman' in the early years of Port Phillip and Victoria, see de Serville, *Port Phillip Gentlemen*, chs. 1 and 2.
- ¹⁰ Geoffrey Serle, *The Golden Age: a history of the Colony of Victoria, 1851–1861*, Melbourne, 1963.
- ¹¹ An old civil servant quoted in the *Leader*, 2 April 1887.
- ¹² PRO VPRS 7, item 3, letter 73.
- ¹³ PRO VPRS 7, item 14, letter 230. Belfast is now Port Fairy, The Grange is Hamilton, but the modern reader is left to ponder how Alberton justified a magistrate's court in 1851 and where on earth is Chipston?
- ¹⁴ PRO VPRS 7, item 14, letter 243.
- ¹⁵ Report from the Select Committee on Public Works, *Victorian Parliamentary Papers (VPP)*, 1853–54, vol. 3; Michael Cannon, *Melbourne After the Gold Rush*, Main Ridge, 1993, pp. 106–7.
- ¹⁶ Quoted in Cannon, *Melbourne After the Gold Rush*, p. 106.
- ¹⁷ Sir Bernard Burke, *A Genealogical and Heraldic History of the Colonial Gentry*, London 1895, vol.2, p. 573
- ¹⁸ Serle, *Golden Age*, p. 137.
- ¹⁹ Ebden's resignation is discussed in Edward Sweetman, *Constitutional Development of Victoria, 1851–56*, Melbourne, 1920, p. 113; and Serle, *Golden Age*, p. 137.
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3



‘Harassed by a desire to distinguish himself’: Hugh Childers as Auditor-General, 1852-53

For most of its 150-year history, the Office of the Auditor-General has performed its functions quietly, efficiently and with the minimum of recognition. There have been few occasions when it has become the subject of public scrutiny or political debate, and any controversies have usually resulted from the Auditor-General's unwavering performance of his duties leading to the discomfiture of politicians or the embarrassment of bureaucrats. However, in 1853 and 1854 the Audit Office was engulfed in political turmoil as a crisis in public finance developed which dominated the attention of the new Governor, Charles Hotham, and contributed largely to the unrest on the goldfields which culminated at the Eureka Stockade. The financial crisis was largely the result of a near-complete breakdown of the Audit Office's controls over government expenditure following the introduction of an ambitious imprest system by twenty-six-year-old Hugh Childers, the second Auditor-General. The imprest system was part of a wider plan of Childers to expand the role of the Audit Office by taking over many of the functions of the Treasury. He saw himself as ‘Comptroller-General of Finance’, but he had no experience of financial affairs and admitted he found auditing ‘uninteresting’. Extraordinarily Childers' abysmal performance as Auditor-General did not prevent his further promotion in the Victorian Government or, after his return to England, his rise to high office in the British Government.

HUGH CULLING EARDLEY CHILDERS

Victoria's second Auditor-General, Hugh Childers, was born in London in 1827. His parents were cousins, being grand-children of Sampson Gideon, a leading financier who became the first (and last) Baron Eardley, although the family fortunes subsequently declined. Hugh Childers was educated at Cambridge University, graduating B.A. with what we would call a major in mathematics in 1850. Immediately on graduation, he married Emily Walker (whose diary is one of the best records of upper-class life in Melbourne in the 1850s),¹ and in October 1850 the newly-weds sailed to Australia.



Hugh Childers, Auditor-General, 1852-53.

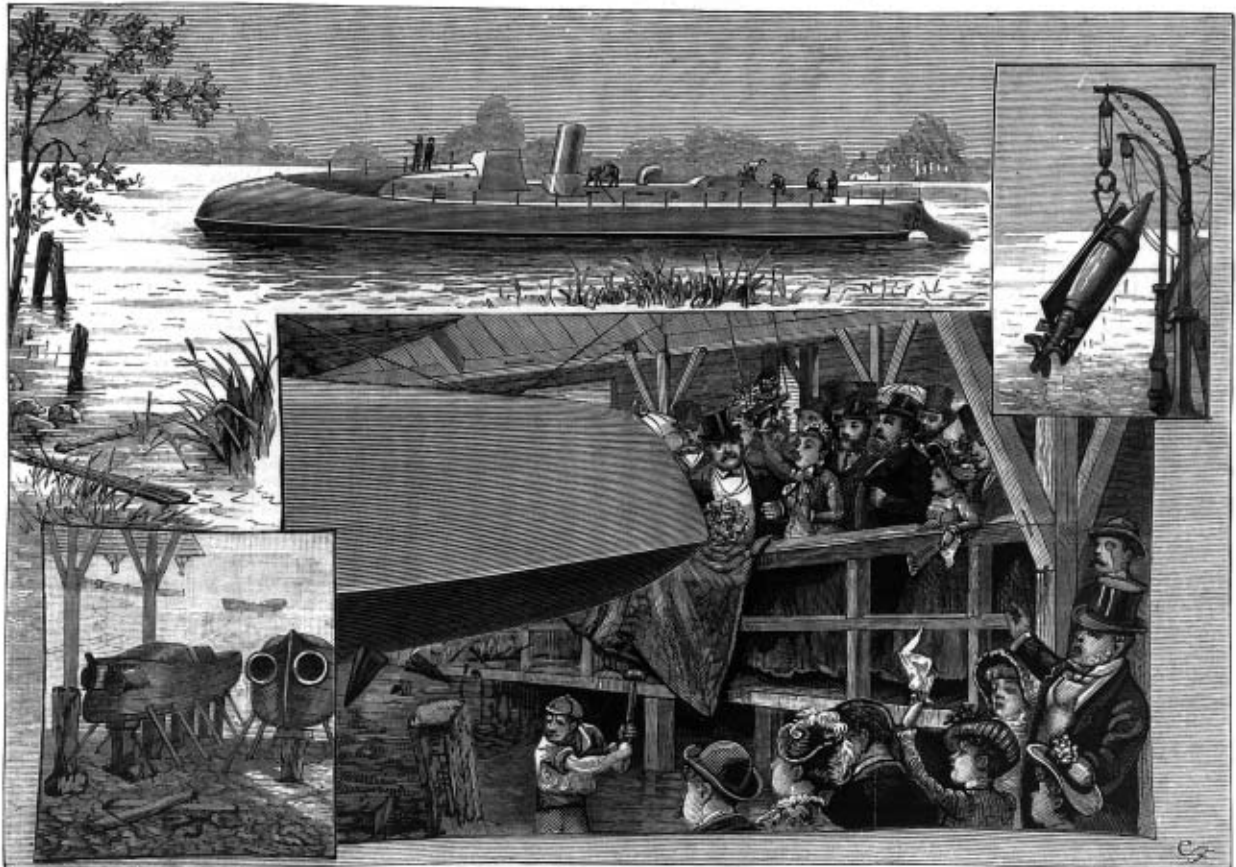
On his arrival in Melbourne, Childers was described as tall, but running to fat ('pudgy' was also a term frequently used to describe him) and he soon gained a reputation as a conversationalist and raconteur. Although he was regarded as a liberal by arch-conservatives such as Charles Ebdon, his views at this stage bordered on the reactionary. For example, in the framing of the new Victorian constitution, he advocated maintaining an upper house as the only means of withstanding 'that overwhelming democracy, which from time to time, every statesman must anticipate in these Colonies', and which he described as a 'levelling flood of ignorance and prejudice'.²

Hugh Childers had good connections but little money and came to the colony to make his fortune. While this was common in nineteenth century Australia, most fortune-seekers

looked to the land, business or, after 1851, gold, but Childers chose to make a career in public administration and politics. His letters of introduction to Superintendent La Trobe gained him a position as an inspector of schools and secretary to the Denominational Schools Board and nine months later he became a National School Board commissioner, and also government immigration agent. His work in this period laid the foundation for La Trobe's reforms of the whole system of elementary education in Victoria.³ In October 1852 La Trobe appointed Childers Auditor-General with a seat in the Legislative Council. During his term as Auditor-General, Childers played a central role in the establishment of the University of Melbourne, introducing the necessary bill into the Legislative Council, and becoming the first Vice-Chancellor (then an honorary and largely ceremonial position). Childers has also been credited with suggesting the establishment of the Melbourne Public Library and, again, he introduced the necessary legislation in the Legislative Council.⁴

In December 1853 La Trobe appointed Childers Collector of Customs with a salary of £2000 p.a. and a seat on the Executive Council. Childers' relations with La Trobe's successor, Charles Hotham, were strained and Hotham attempted to dismiss him, but Childers' connections in London prevented this. With the beginning of responsible government in 1856, Childers was elected MLA for Portland and sat in the first Cabinet as Minister for Trade and Customs. In March 1857 Childers returned to England to become Victoria's first Agent-General in London, but a change of government in Melbourne led to the cancellation of the appointment. Despite this, Childers chose to stay in England, making only one brief visit to Australia for the rest of his life. He entered the House of Commons as a Liberal in 1860 and had a distinguished political career, highlighted by service as Financial Secretary of the Treasury (where he was responsible for the Audit Act of 1865), First Lord of the Admiralty, Secretary of State for War and Chancellor of the Exchequer. He retired from politics in 1892 and died in 1896.⁵

Contrary to common belief, Childers Cove near Warrnambool was not named after Hugh Childers. However, in 1883 a new torpedo boat of the Victorian navy was called the *Childers* in his honour — presumably recognising his contribution as First Lord of the Admiralty in England rather than as Auditor-General in Victoria.⁶



*Launch of the Victorian Torpedo Boat Childers by Mrs Emily Childers at Chiswick, England, on 18 August 1883. The Childers was named after the second Auditor-General.
(La Trobe Picture Collection, State Library of Victoria.)*

On 6 October 1852 Emily Childers was in the studio of Melbourne's society painter, Madam Vieussieux, when, 'Towards the end of the sitting, Hugh came in & whispered to me the delightful news that the office of Auditor-General had been offered to him ... [and] we had a delightful walk home together, talking of dear Hugh's new prospects.'⁷ Hugh Childers had been an undoubted success in his previous appointments in education and as government immigration agent and, given his connections and the lack of educated people in the colony, his advancement was not a surprise. The newspapers of the day merely noted the appointment, making no comment on his youth or inexperience.

On 24 October 1852 Hugh Childers wrote to his mother telling of his appointment as Auditor-General:

You will be glad to hear that I have got another step. On the 7th Mr La Trobe sent for me and offered me the office of Auditor-General. On the following day after consulting our friends, I accepted the appointment; and I have now been in office above a fortnight.

You will be curious to know all about my new post. I am not in the Executive Council, but I have the third seat in the Legislative. My salary is £1200 a year and will possibly be more.

The duties of the Auditor-General are, generally, the control and expounding of the finance of the colony. In his office the public accounts (with the exception of the actual payments and

receipts which are made in the Treasury) are kept, nothing being authorized to be expended or collected without his intervention. In the Council he is Chancellor of the Exchequer, having to introduce and carry through the Budget and all money bills.

You will be, I am sure, very nervous (as I myself have been) in viewing the immense responsibility and difficulty which will be entailed upon so young and inexperienced a man as myself. At times of such unparalleled uncertainty, in a state of society unheard of in the annals of civilization, to have the control and management of the immense public funds of this colony is indeed a most onerous task. But I have made up my mind, with God's help, to look it fully in the face, and I will not flinch. My political principles are known in the colony, as I am known not to belong to the 'old school' which so mismanaged matters here. And, lastly, my predecessor chose to resign within three weeks of the time for bringing forward the Budget; and as he had left nearly all the work to do, there is a certain romance in one's sitting down to so arduous a task ... the Budget is nearly finished, and will be in print before the end of the week. Our revenue next year, if the gold export duty is carried, will be not much under £2,000,000. Imagine the disposition of this enormous sum — greater than the revenue of England in Queen Bess's days — being under my control. I have a good office (as to clerks), and I hope to work well with my colleagues.⁸

It is clear from this letter that auditing in any sense of the word formed no part of Childers' conception of his duties. He saw himself as the minister of finance in the government rather than an independent guardian of the interests of parliament or the public, and his early actions in office confirmed this. He introduced the legislation into the Legislative Council for the establishment and financial support of the University of Melbourne and was deeply involved in most major policy issues in La Trobe's administration. However, he had no interest in the day to day auditing functions of his office, concentrating on the broader field of public finance and leaving the details to the junior staff of his office.

While evidence is scanty, the work of the Audit Office appears to have lacked direction and leadership during Hugh Childers' tenure as Auditor-General. The Treasury records show a sharp decline in the number of queries received from the Audit Office, while there is a corresponding rise in correspondence from the various sub-Treasury offices asking for guidance. The sub-Treasurers in Portland and Geelong seemed particularly confused in their dealings with the Audit Office, continually complaining that they did not understand what the office wanted of them, that they had not been sent the right forms, and they did not know where to send payments.⁹

One of the reasons for the seeming confusion in the Audit Office was its rapid expansion during 1853. In 1852 the estimates for expenditure on the Auditor-General and his office were £1100 and this rose to £6700 for 1853, with the number of staff rising from seven in early 1852 to thirty-five in mid-1853. Given that the path to an appointment in the public service lay through connections rather than competence, it is unlikely that many of the new clerks brought any great knowledge of accounting or auditing to aid the work of the office.

Although favouritism was rife in public service appointments and promotions in the 1850s, Hugh Childers was particularly notorious for giving jobs to his friends. During Childers' tenure as Auditor-General there were twenty-eight new appointments to his office (an indication also of the rapid growth of the department) and many of these can be identified as friends or acquaintances. The two clearest examples of favouritism were the appointments of John Tyler and John Merewether. Close friends of Hugh and Emily Childers and frequent visitors to their house, Childers found places for both of them in the Audit Office.¹⁰ Tyler remained at the office throughout Childers' tenure and then moved with him to the Customs Department as a senior clerk, remaining there for many years. Merewether's career was less happy. After two months at the Audit Office, Childers was instrumental in obtaining for him a position as a school inspector, but he was dismissed in controversial circumstances in August 1853. Merewether was charged with giving liquor to a soldier on sentry duty outside the Treasury and in the subsequent inquiry, Childers was accused of jobbery and favouritism in obtaining positions for someone unsuited to them.¹¹ However, accusations of this sort did not prevent Childers from appointing his friend George Rusden as acting Auditor-General when he went on leave, rather than Charles Symonds, the highly experienced chief clerk.¹²

George Rusden came to Australia in 1834 and, after some years as a pastoralist and a failed business venture in China, he came to Victoria soon after separation as Chief Clerk of the Colonial Secretary's office. The following year he became Clerk of the Executive Council and in 1856 he was appointed Clerk of the Parliament, a position he held until his retirement in 1882.¹³ Like the Childers he was a staunch Anglican and this appears to have been the basis of their friendship. From early 1852, Rusden was a frequent visitor to the Childers' home, often staying the night, and he lunched or dined with Hugh Childers several times a week. Rusden was a bachelor and in May 1853 he stayed with the Childers for a week while recuperating from influenza.¹⁴

However, the friendship between George Rusden and the Childers came to an end by 1857, and in Rusden's influential *History of Australia*, published in 1883, Rusden attacked Hugh Childers with a degree of venom bordering on the libellous. Making frequent use of adjectives such as 'acquisitive', 'obsequious', and 'unprincipled', Rusden argued that Childers was almost solely responsible for Victoria's financial problems. Although he conceded that Childers was 'capable of ordinary things', Rusden saw him as 'harassed by a desire to distinguish himself, and in every department over which he presided he set on foot schemes of re-organisation which ended in disaster'.¹⁵ Rusden was acting Auditor-General for several weeks in May 1853 and claimed that he was appalled at the lax control over expenditure under Childers' imprest system. He stated that he 'vehemently represented to Mr. Latrobe the danger of such a practice'.¹⁶

Emily Childers' diary showed that she frequently visited the Audit Office, using it as a base when shopping in town. One day she 'walked to Hugh's office, found Mr Merewether and Mr Tyler there, the room in great confusion'. The following day she again called in but 'Hugh was far too busy to come (3 clerks at work in his room he dictating to all at once)'.

More disturbing to the routine of the office was Childers' habit of ordering the clerks to assist Emily carry her shopping and even help arrange the house for dinner parties.¹⁷ For example, on 16 August 1853 Emily Childers noted in her diary that, 'Mr Tyler came up after tea and helped Hugh to hang the hall with a great flag, Chinese pictures &c.'

In his early months as Auditor-General, Hugh Childers introduced major changes to the system of making government payments. These changes, based around the introduction of an imprest system, became the centre of enormous political controversy, and were widely blamed for the collapse in public finances in 1853 and 1854. The first serious questioning of the imprest system came in late 1853 from a Select Committee of the Legislative Council inquiring into a great increase in the costs of public works. The committee closely questioned Hugh Childers and his evidence gives a clear picture of the working of the old system and the supposed working of the new system:

Under the old system, all accounts ... were forwarded to the Audit Office, and when examined, and if necessary, corrected, passed to the Treasury for payment. Under this arrangement, the Audit Office kept the accounts of all the departments of Government, and the Treasury made all the disbursements. But this system, when the enormous increase in expenditure began to take place, at the commencement of this year [1853] was found to work in a very unsatisfactory manner. In spite of every endeavour, great delays took place in payments. As the Auditor-General was responsible for every account which he passed, it was necessary that these should be completed in every respect before they were paid, and in consequence, they had frequently to be sent back for correction, and were not returned for some time. Besides, at times a great number of accounts would be received at once, and while for some weeks there was no press of business, at others it was frequently impossible to get through the work satisfactorily. There was another great disadvantage in the old system, in that it made the heads of the different departments careless about their accounts. All that they had to do was to sign the vouchers, as these were presented to them, and leave the Audit Office to see to their correctness. They were not required themselves to keep their accounts, nor were they directly responsible for the expenditure incurred by them, as they were relieved of this responsibility by the vouchers having to pass through the Audit Office before payment, where any mistake would be noticed and pointed out.

To remedy these great and growing evils, it was determined to extend the system of making advances, and carry out, so far as possible, the arrangements pursued in all countries having a large public expenditure. Accordingly, every department was required to furnish, a few days before the end of the month, an application, shewing the amount which they would probably have to expend during the following month. This when examined and approved by the Governor, would be included in an advance warrant, and the amount placed at the disposal of the head of the department, who would be required fully to account for it, with the proper vouchers, at the end of the month. The head of the department was not allowed to place the amount advanced to him in a private bank, but it was placed to his credit in an office attached to the Treasury, called the Imprest Office; and payments were effected by drafts upon the Colonial Treasurer, to be presented at this office ... Every week every head of department

furnishes the Audit Office with an account, shewing the sums advanced to him, and describing all the payments made from them during the week; and at the end of the month the accounts and vouchers are examined, and the advance is adjusted, any balance unpaid being returned into the Treasury.¹⁸

As described by Childers the imprest system was a simple and effective system for controlling government expenditure and he refused to admit that there were any problems with it. However, the evidence given to the select committee by many government officials and contractors gave a very different picture. Most of them painted a picture of slow payments, inadequate checks on expenditure and generally chaotic conditions in both the Audit Office and the Imprest Office. For example, James Balmain, the acting Colonial Architect, was asked what check there was on his expenditure of imprests and replied: 'There is no very great check as to actual expenditure on the buildings for which they are given. We receive the amounts and we are presumed to pay them away only for works that have been authorised; but of course it would be in our power to pay it for what has not been authorised.'¹⁹

In 1853 criticisms of the imprest system were mainly of its procedures rather than its principles — it was not until the following year, when the full scale of Victoria's financial problems became known, that it was blamed for the government's loss of control over public expenditure.

Hugh Childers did not remain at the Audit Office long enough to feel the full brunt of the criticism heaped on the office and particularly the imprest system during the financial crisis of 1854. He was intensely ambitious and was never likely to remain for long as Auditor-General — he definitely did not see himself as a career auditor. In July 1853 he wrote to his mother outlining some suggestions he had made to Governor La Trobe:

All my proposals, with very slight exceptions, have been adopted by the Governor. One which is to be laid before the Council involves a complete reorganization of the finance departments; and if it succeeds I shall probably be appointed 'Comptroller-General of Finance,' being relieved of some of the uninteresting 'audit' duties of my present appointment, and having a more clearly defined position.²⁰

Nothing came of this scheme of Childers and in late November 1853 he enthusiastically accepted the appointment as Collector of Customs following the death of James Cassell. As he explained to his mother, this position was 'the only step between the Auditor-Generalship and the Colonial Secretaryship' and gave him a seat on the Executive Council (and a healthy pay rise). Consequently, while Hugh Childers was enjoying a series of celebratory dinners on his promotion, his successor, Edward Grimes was left with an office in disarray, public accounts in disorder, and what proved to be (once the accounts were tidied up) a critical gap between the government's revenue and expenditure. And at the heart of the financial crisis was the failure of Hugh Childers' imprest system.

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- ¹ Emily Childers' diary forms the basis of the biography by Jean Uhl, *A Woman of Importance: Emily Childers in Melbourne, 1850-56*, Melbourne, 1992.
- ² Quoted in Paul de Serville, *Pounds and Pedigrees: the Upper Class in Victoria, 1850-80*, Melbourne, 1991, p. 80.
- ³ Edward Sweetman, *The Educational Activities in Victoria of the Rt. Hon. H.C.E. Childers*, Melbourne, 1940.
- ⁴ Sweetman, *Educational Activities of Childers*, ch. 6.
- ⁵ For details of Hugh Childers' life and career, see *Dictionary of National Biography*, Supplement, vol.1, London, 1901, pp. 423-6; H.L. Hall, 'Hugh Culling Eardley Childers', *Australian Dictionary of Biography*, vol. 3, Melbourne, 1969.
- ⁶ The *Childers* was a torpedo boat of 118 feet, with a maximum speed of 19 knots and armed with four torpedoes and a pair of single-barrelled Hotchkiss guns. It was built in England and had a horror voyage out to Australia, running out of coal off Cadiz, running aground in the Red Sea when the quarter-master was drunk, and having to be towed across the Indian Ocean when it proved unable to handle heavy seas. During the 1880s and 1890s it performed well in the exercises of the Victorian Navy in Port Phillip Bay, before being transferred to the new Australian Navy in 1901. During the First World War the *Childers* carried out patrol work in the bay, but it was scrapped at the end of the war. For more details, see Colin Jones, *Australian Colonial Navies*, Canberra, 1986.
- ⁷ Uhl, *Woman of Importance*, p. 43.
- ⁸ Quoted in Spencer Childers, *The Life and Correspondence of the Rt. Hon. Hugh Culling Eardley Childers*, vol. 1, London, 1901, p. 44.
- ⁹ For example, PRO VPRS 7, items 6 and 7.
- ¹⁰ They are frequently mentioned in Emily Childers' diary, with Merewether even dining with the Childers on Christmas Day 1852. Merewether clearly felt great affection for Emily Childers, making bouquets for her and composing a waltz in her honour, but Emily regarded this with amusement rather than reciprocated passion. Uhl, *A Woman of Importance*, pp. 41, 42, 50-1, 66, etc.
- ¹¹ Uhl, *Woman of Importance*, p. 92.
- ¹² PRO VPRS 7, item 7.
- ¹³ Ann Blainey and Mary Lazarus, 'George William Rusden', *Australian Dictionary of Biography*, vol. 6, pp. 72-3.
- ¹⁴ Uhl, *Woman of Importance*, pp. 26, 30, 34, 37-9, 41, 50, 62-3, 83, 85, 88-9, 96, 107-8.
- ¹⁵ G.W. Rusden, *History of Australia*, London, 1883, vol. 2, p. 653.
- ¹⁶ Rusden, *History of Australia*, vol. 3, p. 23.
- ¹⁷ Uhl, *Woman of Importance*, pp. 87, 110.
- ¹⁸ Report from the Select Committee on Public Works, *VPP*, 1853-54, vol. 3, p. 34.
- ¹⁹ Report from the Select Committee on Public Works, p. 5.
- ²⁰ Quoted in Childers, *Life and Correspondence*, vol. 1, p. 53
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4

Crisis and reform, 1854-57

Following Hugh Childers' promotion to Collector of Customs in early December, Edward Grimes appears to have been a logical and non-controversial appointment as Auditor-General. Like Childers he had a good record as immigration agent, coping well with the enormous influx of immigrants during 1853, and his promotion was welcomed in the press. However, in contrast to Childers, who sailed through his period as Auditor-General quite unaware of the impending collapse in public finances, Grimes had to bear the full brunt of the collapse and chaired the finance committee which identified the causes of the problems and outlined a program for recovery. After supervising the restoration of the government's financial position, he was largely responsible for a complete restructure of the Audit Office, embodied in the Audit Act of 1857, which removed the Audit Office from politics and clarified its fundamental role as an independent auditor of the activities of the government.

EDWARD GRIMES

In origins and social class, Edward Grimes had much in common with Charles Ebdon and Hugh Childers, but he was less politically involved and did not have the same force of personality, with the result that we have far fewer contemporary accounts of him. Edward Grimes was born in Warwickshire, England in 1811, and educated at Rugby School and Oriel College, Oxford. He came to Sydney in the late 1830s with enough capital to set up as a pastoralist and overlanded to Port Phillip in early 1840, where he took up three enormous runs on the Broken River between Shepparton and Benalla — Benalla of 48,000 acres, Gowangardie of 40,000 acres and Upotipotpon of 40,960 acres. On his three runs of nearly 130,000 acres he had about 17,000 sheep and 1800 cattle. A historian of Benalla states that Grimes was locally renowned as a Latin scholar and a fine singer, but that his chief claim to fame in the district arose from his poor handwriting. The

original name of his first run was 'Benalta', but Grimes frequently forgot to cross the 't' — in 1848 he wrote 'Benalla' rather than 'Benalta' on his application for a fourteen-year lease on the run and this mistake was repeated by a government clerk on the official papers establishing the township now known as Benalla.¹



Edward Grimes, Auditor-General, 1853-57.

In 1844 Edward Grimes received the honorary appointments of Justice of the Peace and Magistrate, and two years later he became Commissioner for Crown Lands for Western Port (effectively the entire eastern half of the colony). This was a paid, full-time position involving setting boundaries of runs, adjudicating disputes, collecting squatting fees and generally imposing governmental authority in the pastoral districts. Grimes had sold his Upotipotpon run in 1844, but he kept his other runs while a commissioner — the apparent conflict of interest arousing no comment at the time. A. G. L. Shaw has noted that 'the Commissioners were powerful officials, all the more intimidating when appearing dressed like "an officer of some regiment of irregular mounted rifles", leading a troop of Border Police, armed with carbines and pistols'.² Whether through lack of success as a squatter, a desire to live in Melbourne or a liking for government employment, in the late 1840s Grimes chose to sell his remaining runs and began to move up the ladder of the colony's officialdom. On separation in 1851, he became the first Clerk of Victoria's Executive Council. The following year he became a member of the Immigration Board of Commissioners and succeeded Hugh Childers as immigration agent. A contemporary described Grimes as 'an honourable and capable though indolent officer'.³

One of the few sources we have that gives a glimpse of Edward Grimes' personality is the diary of Emily Childers. From February 1852 there was a close friendship between Grimes and the Childers family. He was a frequent visitor to their home, calling when Hugh Childers was ill, lending them books and dining with them to celebrate Hugh's appointment as Auditor-General. One revealing diary entry from mid-1852 suggests that Hugh Childers seriously considered returning to England, but Grimes had a 'long political talk with Hugh [and] advises our remaining in the colony'.⁴ However, there was a rift in the friendship during 1854 — probably as a result of Grimes' involvement in Governor Hotham's finance committee which criticised Childers' performances as Auditor-General — and subsequently Grimes was only mentioned once in Emily Childers' diary. In November 1855 Emily Childers organised a group of society ladies to run a stall at a charity bazaar for the Melbourne Hospital and one day she arrived at the exhibition to find 'Mr Grimes making himself fearfully conspicuous selling baby clothes in our stall'.⁵

Following the reforms of the Audit Office in 1857, Edward Grimes retired from public life. He had never married and had no family in Australia, so he chose to return to England where he died in 1859, aged only forty-eight.

In September 1853 Hugh Childers gave evidence to a Legislative Council inquiry into government banking in which he expressed satisfaction with the budget situation and stated that 'as far as the usual expenditure of the Colony is concerned, we shall not have to go to a loan to meet it'.⁶ However, in the same month he and the Treasurer, William Lonsdale, began blaming each other for the chaotic state of public accounts and the failure to finalise the accounts for the previous year (the financial year then being the same as the calendar year).⁷ Several months later the Legislative Council inquiry into public works revealed that government expenditure was out of control, but neither the Treasury nor the Audit Office was able to produce accurate figures for either revenue or expenditure making remedial action difficult. In the Legislative Council debates on the budget for 1854, the government admitted that it had spent almost £1 million without the Council's sanction and proposed an export duty on gold as the main measure to boost the revenue base. Unfortunately the Legislative Council rejected the export duty, leaving the government dependent on gold licence fees and customs revenues for about ninety per cent of its ordinary revenue.

Governor La Trobe sent his resignation to London in December 1852 and it was accepted in April 1853, but he did not leave the colony until May 1854 and his successor, Charles Hotham, did not arrive until June 1854. Consequently Victoria had over fifteen months under a 'lame-duck' governor looking forward to retirement, before the government passed into the hands of a naval officer with no experience at all of civil administration. In La Trobe's final months the government seemed unaware that it faced a financial crisis. J.F.L. Foster, the Colonial Secretary, wrote in early 1854 that 'Victoria never was so quiet so prosperous or so satisfied as it is at present'.⁸ In contrast, the Colonial Office in London was very aware of the financial situation in Victoria, and emphasised to the new governor that his

first task was to address the problem. As a result, throughout the voyage out and during Hotham's first months in Victoria, 'how to get revenue and how to curtail expenditure were the unceasing objects of his daily thought'.⁹

When Governor Hotham arrived in Victoria,

he discovered speedily that the affairs of the Government were in a state of fearful disorder, and that the Administration was rife with abuses. The public revenues had been recklessly squandered; large sums had disappeared without accounting, and the Government was deeply indebted to the Banks. The half-yearly revenue was short of the estimate by £345,000 and the Treasurer reported to him a total deficiency of £1,087,000.¹⁰

His instructions from the Colonial Office suggested that he should look to the goldfields to boost government revenues and, as the Legislative Council had rejected an export tax on gold, Hotham had little choice but to rely on revenue from gold licences. During the first half of 1854 collection of licence fees on many of the goldfields had fallen far in arrears and, in his desperation to boost revenues, Hotham ordered that the law be vigorously enforced. In particular he ordered that the police should carry out thorough and effective checks on licences at least twice weekly.¹¹

Both contemporary commentators and later historians agree that the most important cause of the Eureka rebellion was digger opposition to the licence fee, compounded by resentment at the methods used to enforce it. As the governor believed that high licence fees were essential to overcome the crisis in public finances, there is clearly a direct line of causation from the financial chaos of 1853–54 to the Eureka Stockade. The point of interest for the purposes of this history is the extent to which the Auditor-General was responsible for the financial crisis. The evidence given in the previous chapter suggests that Childers' tenure of the office contributed largely to the problems; the evidence given below confirms this view.

At the same time as government policy was leading inexorably to an explosion of discontent on the goldfields, Hotham had already initiated an inquiry that helped resolve the financial crisis which was at the heart of the problem. Given Hugh Childers' role in the development of the financial crisis, it is appropriate that his successor, Edward Grimes, played a central role in the reform process.

Hotham quickly decided that he could not work with the leading government officials who made up his Executive Council, as they were largely responsible for the critical financial situation. Legally he could not remove his officials (although he tried unsuccessfully to have Hugh Childers sacked by the Colonial Office), so he chose to govern as much as possible without them. One of his most important actions to address the financial situation was the appointment of an expert committee to analyse the problem and put forward solutions. The committee consisted of two leading bankers, William Hart and David McArthur, chaired by the Auditor-General, Edward Grimes, one of the few government officials trusted by Hotham.¹² The instructions Hotham gave to the committee set out his view of the crisis and the areas he thought required attention:

The Auditor-General having, in compliance with my directions, furnished me with a financial statement, wherein I find a sum of £1,682,328 2s marked under the heading of Imprests, remaining unbalanced, and seeing, moreover, that the General Revenue, unaided, no longer covers the Expenditure, and that ... recourse is obliged to be had to loans, I feel that the time has arrived when a searching scrutiny must take place into the appropriation of the Revenue, and an endeavor made, not only to narrow the present enormous outgoing, but also to devise a financial scheme which may tend to develop the future of the country, and turn its wealth both to the good of the present generation and those who are to succeed to them...

The short experience which I have had of the mode in which business, in public affairs, is conducted, prevents my pointing out the objects on which your enquiry should be directed, [but] I could wish that your research should embrace the mode in which each Department manages its Finance, and by what system of control and check the security of the public is provided for.

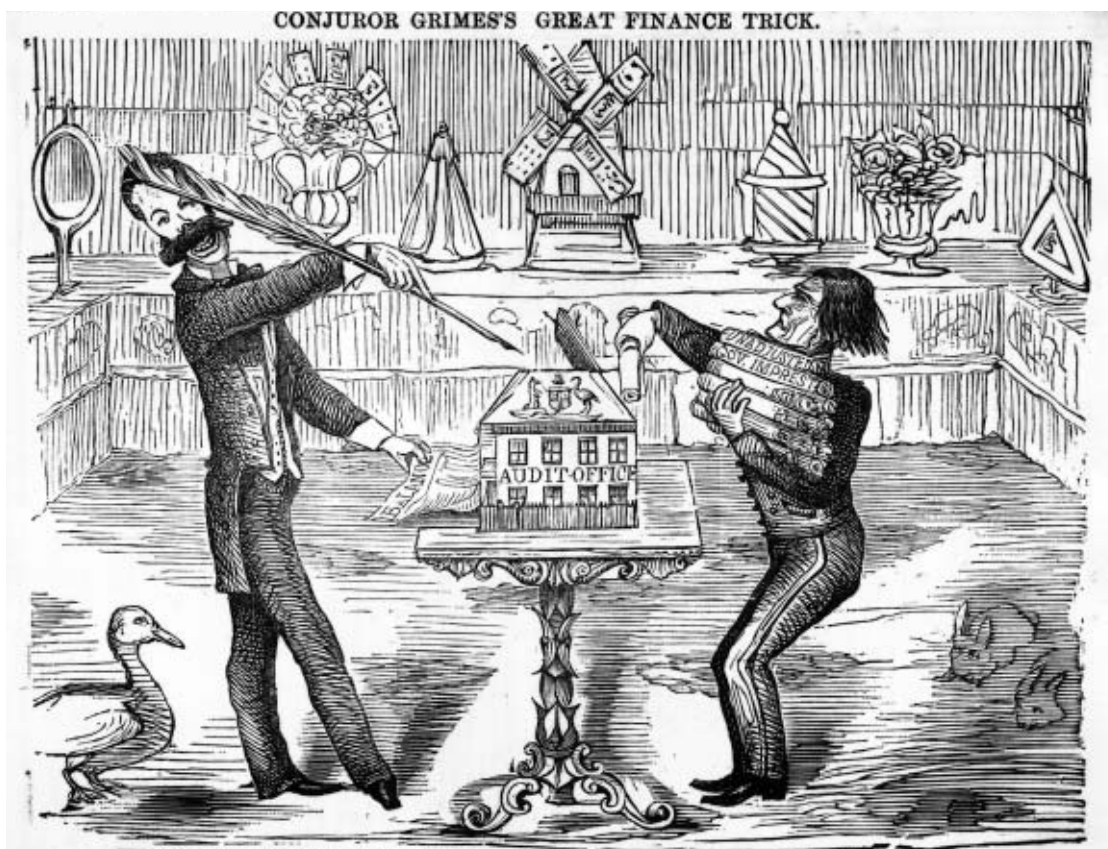
... I cannot forbear pointing out, for your special attention, the Imprest System. For it does seem to me most indecorous that large sums of money should be periodically handed over to individuals ... and that the very magnitude of the sums should prevent security for its safe custody and appropriation being taken.¹³

From early September 1854, the finance committee began making regular progress reports to Governor Hotham, and these reports provide a thorough analysis of the crisis in public finances in Victoria.

The committee made a detailed assessment of the budgetary situation. The estimates for 1854, largely drawn up by Hugh Childers in his final days as Auditor-General, provided for expenditure of almost £4 million, more than double the revenue (exclusive of land sales) of about £1.7 million. The finances had continued to drift in the first half of 1854 and the projected deficit for 1855 was again well over £2 million. The committee made a series of recommendations for increasing revenue (mainly through increased customs duties), raising loans to cover the cost of essential public works and reducing expenditure to match the revenue.¹⁴ These recommendations were largely adopted by Governor Hotham, with the support of William Haines and Charles Sladen (respectively Colonial Secretary and acting-Treasurer from December 1854), and, by the end of 1855, the budget was almost balanced.

The committee dissected Hugh Childers' imprest system and concluded that it had not been 'attended with any advantages whatsoever'. The system was 'radically defective in principle' because it gave large sums of money to heads of department with no security beyond an audit after payments had been made, when recovery of misappropriated funds would be difficult or impossible. The committee noted that its chairman, Edward Grimes, had 'deemed it necessary on assuming office [as Auditor-General] to place on record his desire to be exonerated from the consequences' of the lack of security in the imprest system. On a practical level, the committee showed that government departments, the Treasury, and the Audit Office had widely ignored the regulations governing the operation of the imprest system, with the result that unadjusted imprests totalled over £1.6 million, of which

£677,964 had been outstanding for over twelve months and £283,745 was ‘wholly unaccounted for’. The scale of the problem can be judged by the fact that total government revenue for 1854 was only £1.7 million. The committee admitted that the imprest system had improved the speed of government payments but argued that ‘the advantage has been dearly purchased by the surrender of all practical check and control over disbursements’. Having established the case against the imprest system, the committee made a series of practical and constructive proposals for reforms, to some extent restoring audit before payment. These reforms combined the efficient payments of the imprest system with a regime of effective checks and controls and came to form the basis of the system for control of government expenditure which functioned fairly smoothly for the rest of the nineteenth century.¹⁵



Conjuror Grimes: *Now Ladies and Gentlemen, you shall see my wonderful trick of producing a public balance sheet out of unadjusted imprests and sums unaccounted for. Sprightly, bring me some unadjusted imprests and sums unaccounted for.*

Sprightly (Mr Simes): *Here you are, sir — plenty of ‘em.*

Conjuror Grimes: *Now observe, I place these under a funnel of foolscap, and in one minute you’ll see the accounts balance to a penny. Hey presto, &c, &c.*

Melbourne Punch was (unjustly) sceptical of Edward Grimes’ efforts to restore the public finances from the chaos left by Hugh Childers. Melbourne Punch, 1856, p. 16.

(La Trobe Picture Collection, State Library of Victoria.)

The finance committee made a detailed investigation of the workings of the Civil Commissariat, the government's purchasing department. The report showed that, 'the practice hitherto pursued in making purchases has been most irregular and objectionable'. In particular the system of asking suppliers to make 'voluntary offers' to supply goods at their own price had led to massive overpayments by the government. The committee recommended the abolition of the commissariat, arguing that all supplies should be purchased by public tender and that the task of distributing supplies to the departments should be carried out by the Colonial Storekeeper.¹⁶ These reforms were adopted with great success and it is significant that a large part of the success was due to the diligence of the Colonial Storekeeper, Alfred Agg, later to be a long-serving Audit Commissioner.

Having tackled the immediate financial crisis and suggested remedies for the most flagrant abuses, in 1855 the finance committee turned its attention to developing a more soundly based system of public finance for Victoria, including a complete reform of the Audit Office. For this task, Grimes, Hart and McArthur were joined by William Haines and Charles Sladen, and the enlarged committee presented its report, *On the Mode of Keeping and Rendering Public Accounts*, to the Legislative Council in November 1855. The committee closely examined the working of the Audit Office and,

The result of this examination has convinced the Committee that the unsatisfactory state of the Audit Department as manifested by the impossibility of obtaining from it a correct Balance Sheet of the Public Receipts and Expenditure for the past and present year, has been caused in a great measure by a defective system of accounts which has been in operation.

It is to radical defects in that system that the want of clearness and accuracy, of which there has been so much reason to complain, may be traced, and these defects the Committee now proceed to point out.

The committee reiterated the problems caused during 1853 and 1854 by the imprest system. Even though the system had been stopped in November 1854, 'so great and complicated were the arrears ... that a correct Balance Sheet for the year 1854 has not even yet been arrived at'. However, while the imprest system had been the main source of irregularities, there was an even more fundamental flaw in the system. The report explained:

The mode in which payments are at present made and brought to account is as follows. The authority of the Government having been obtained to certain expenditure, the Head of the Department certifies ... that the claim is correct; the account then goes to the Audit Office, where, if it be found in order, the amount is placed in warrant for His Excellency's signature, and under such warrant the claimant is paid at the Treasury; the Treasurer then inserts the item in his Cash Sheet, which he transmits to the Auditor on the same day, and in the Audit Office the item passes through the various books and finally appears to the debit of the Department in the Public Ledger of the Colony.

It will be seen from this statement that the Auditor is the book-keeper of the Colony, and that having sanctioned the expenditure and carried it to account there is no further check upon the transaction; **the Auditor in fact auditing his own work**, while the duty of the Treasurer is

confined to that of a mere paymaster, paying only under warrants, the accuracy of which it is not his province to question.

The committee saw this as being objectionable in principle and inefficient in practice and proposed a new system of public accounts based largely on those in force in Ceylon. The key reform was that, ‘the Treasurer is made the immediate collector of revenue, the paymaster, and the bookkeeper of the Colony, while **the Auditor is confined to his more legitimate function of verifying the accuracy of the duties performed by other departments**’. The committee proposed that payments should be made by the Treasury on the certificate of heads of departments, with audit occurring after payment. For the first time, the committee proposed that each department should have a regular system of internal audit to supplement the external audit by the Audit Office.¹⁷

The report of the finance committee was accepted in full by Governor Hotham only a few days before his death, and was formally adopted as regulations for keeping the public accounts on 1 January 1856. The following year this report formed the basis of Victoria’s first Audit Act, which was guided through the Parliament by Charles Ebdon, who returned to the government as Treasurer from April 1857 to July 1858.

In the interval of fifteen months between the finance committee’s final report and the introduction of the Audit Act which restructured the whole Audit Office, the work of the office appears to have been carried out quietly and without controversy. The accounts for 1853 and 1854 were finally cleared up as the office devoted its attentions to auditing rather than acting as a policy making and politicised Ministry of Finance. As a result of the clear delineation of the functions of the Treasury and the Audit Office, the vote for the Audit Office fell from £10,515 to £8450 and the number of staff fell proportionately. Charles Symonds remained as chief clerk, with the title of ‘examiner’ and the senior staff of George Buckley, Arthur Bible, Samuel Thomas and William Brooks was acquiring a degree of stability. At the end of 1856 the office had nineteen clerks, three messengers and a housekeeper.

Among the surviving records from this period are the details of the surcharges made by the Audit Office on various government payments. Surcharges were made when the office was not satisfied with some aspect of a payment, which might just be an administrative problem such as incorrect or missing vouchers, but could arise from a fraud or unauthorised payment. For 1856, total surcharges were £93,231/6/4d, with the amounts surcharged ranging from 6d to £10,000. As always, the Audit Office performed its duties without fear or favour. On 5 February 1857 Charles Symonds noted:

The Honourable the President of the Legislative Council has been paid £40.0.0 as Salary for the period from the 21st to 30th November 1856. The Salary for that period correctly computed amounts to only £33.6.8. The difference is, therefore, hereby surcharged viz., Six Pounds thirteen shillings and four pence £6.13.4

signed for the Auditor-General, C.H. Symonds.¹⁸

Edward Grimes endorsed this action, making a note on the document, ‘This amount must be recovered’.

Edward Grimes continued as Auditor-General until the introduction of the arrangements set up by the Audit Act. Although his appointment remained a political one, he largely removed the work of the office from the political process and successfully avoided controversies. Despite this, Grimes was subjected to constant attacks in the *Argus*, which was always a strong supporter of Hugh Childers and resented the criticism of Childers in the reports of the finance committee. A typical example came in an editorial on 8 April 1856,

Take our old friend Grimes ... We have no hesitation in saying that with public opinion rapidly awakening throughout the colony as it is, an attempt on the part of this gentleman to have superintended the passing of the Estimates through the Legislature during the last session, in his customary, superficial, he-he-he, style, would have been fatal to this official position. The public would not have stood for it. Mr. Haines would have been forced to get an Auditor-General who knew of the existence of a ready-reckoner before he was forty, and Mr. Grimes must of necessity have been shelved. As it is he is smuggled away somewhere into the background; and mismanages everything for the next half century, without any apparent chance of his removal.

Clearly the author of this article did not comprehend that under the arrangements brought in at the start of 1856, the Auditor-General was no longer responsible for financial policy and had no role in the presentation of the estimates, or that henceforward the role of the Auditor-General was to remain in the background as the vigilant guardian of the interests of Parliament and the public. The short and disastrous era of the political Auditor-General had finished, even if the editorial writer of the *Argus* did not recognise the fact.

¹ A.J. Dunlop, *Benalla Cavalcade: a history of Benalla and District*, Melbourne, 1973, pp. 23, 33.

² Shaw, *A History of the Port Phillip District*, p. 93.

³ Rusden, *History of Australia*, vol. 3, p. 27.

⁴ Uhl, *Woman of Importance*, p. 38.

⁵ Uhl, *Woman of Importance*, p. 206.

⁶ Report from the Select Committee on Government Banking, *VPP*, 1853–54, p. 27.

⁷ PRO VPRS 7, item 9, Childers to Colonial Treasurer 19 and 20 September 1853.

⁸ Quoted in Serle, *Golden Age*, p. 146.

⁹ Anderson (ed), *Eureka: Victorian Parliamentary Papers, Votes and Proceedings 1854–1867*, p. 4.

¹⁰ Ambrose Pratt, *The Centenary History of Victoria*, Melbourne, 1934, p. 108.

¹¹ Shirley Roberts, *Charles Hotham: a biography*, Melbourne, 1985, p. 118; Molony, *Eureka*, p. 45.

- ¹² Although Grimes had the support of Hotham, he had a bitter enemy in the offices of the *Argus*. On 7 August 1854 that newspaper commented on the establishment of the finance committee: BOARD OF ENQUIRY.- An investigation of a most important character has been decided upon by the Lieutenant-Governor. His Excellency has appointed a Board, consisting of three gentlemen, to review thoroughly, and report upon, the whole financial condition of the colony. The Board is to comprise Mr. Hart, the principle member here of the firm of Bright Brothers, and Mr. Macarthur, of the Bank of Australasia; but by a singular fatality, the Governor has, it is reported, fixed upon the Auditor-General, Mr. Grimes, as the third member. In the two first that we have named will be recognised gentlemen as thoroughly fitted in every respect for their important task as any that the colony could supply, and as this laborious duty is strictly honorary, it is difficult to estimate the obligation that they will thereby lay the colonists under. Of the third gentleman, if it be really true that the Governor has made so serious a mistake, we have no wish to say anything disrespectful, and we therefore say nothing at all.
- ¹³ Charles Hotham to Messrs Grimes, Hart and McArthur 26 July 1854 in Reports on the Financial State of the Colony, *VPP*, 1854–55, no. 88, p. 21.
- ¹⁴ Finance Committee, Progress Reports, no. 3 (27 September 1854), no. 5 (15 November 1854), no.11 (3 May 1855).
- ¹⁵ Finance Committee, Progress Report, no. 1, in Reports on the Financial State of the Colony, p. 3–6.
- ¹⁶ Finance Committee, Progress Report, Nos 2, 8, 9, 10, 12.
- ¹⁷ Finance Committee, Progress Report on the Keeping and Rendering of Public Accounts, November 1855. Bold passages are this author's emphasis. It took the Victorian government about 130 years to fully implement the finance committee's recommendations on internal audit in government departments.
- ¹⁸ PRO VPRS 1219, item 14, no. 138.
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5



‘Watchmen on the tower’, the Commissioners of Audit, 1857-83

On 23 November 1855 the Victorian Constitution Act came into force, introducing responsible government and making the colony effectively independent in all matters except foreign affairs. Charles Sladen, the Treasurer in the first ministry under the new arrangements, was a conservative squatter, who had been deeply concerned by the breakdown in public finance in 1853–54. Following the restoration of the budgetary position during 1856, he devoted his efforts to ensuring there was no repeat of the financial debacle. In the Legislative Assembly on 13 February 1857 he moved, ‘For leave to bring in a bill to provide for the collection, payment, recovery, and audit of the public accounts’. He explained that the bill:

Contemplated the appointment of two Commissioners of Audit to be selected by the Government, but only removable by a vote of the Houses of Legislature ... A control would be placed on the issue of moneys from the Treasury which did not exist at present, inasmuch as the Treasurer paid on the warrant of the Governor, which did not afford security that the funds would be properly applied. By the bill the Commissioners of Audit would be invested with that control, and it would be their duty to see that the expenditure detailed was in accordance with the Appropriation Act, and within the limit set apart under that act. It also provided for the recovery of money in case of payments improperly made. The audit would come subsequently and be upon each voucher, which would be properly examined and certified to. The accounts would then go back into the books of the Treasury, and finally be audited by the commissioners, who would annually submit a full report to the Legislature.¹

On 29 April 1857 Charles Ebdon, the first Auditor-General, became Treasurer in William Haines’ second ministry. Ebdon redrafted the Audit Bill, making provision for three

Commissioners of Audit rather than two, and stating that the commissioners would be barred from being members of parliament or holding any political office. Although John O'Shanassy claimed that the proposals would 'degrade the Treasurer into a mere clerk', most members agreed with Mr Hughes (MLA for Portland) who felt that the bill was an important step toward 'as perfect a system of audit of the public accounts as possible'.²

The first Audit Act became law in October 1857. Its full title was, An Act to provide for the Collection and Payment of the Public Moneys, the Audit of the Public Accounts and the Protection and Recovery of the Public Property. The most important provisions were:

Section 1 Three Commissioners of Audit were to be appointed by the Governor with the advice of the Executive Council.

Section 2 The commissioners were to be paid annual salaries of £1000 each and were ineligible to be members of the Executive Council or Parliament.

Section 3 The commissioners were to hold office during good behaviour and could only be removed by an address to the government from both houses in one session or the Legislative Assembly alone in two sessions. They could be suspended by the Governor and only restored by the Legislative Assembly.

The Act detailed the procedure the commissioners should follow in authorising payments from the Treasury:

Sections 12–13 On receiving a warrant for payment signed by the Governor, 'Before countersigning ... commissioners shall ascertain that the sums therein mentioned are then legally available for and applicable to the service or purpose mentioned in such instrument.'

Section 14 Warrants were then to be sent to the Treasury for payment. Every order for payment was to be signed by the treasurer or his deputy and then countersigned by one of the Commissioners of Audit.

The Act also specified the scrutiny the commissioners were to make of the Treasury accounts:

Section 24 'The treasurer shall keep at the Treasury ... a book to be called "the cash book" and shall enter therein when and as such statements accounts and receipts as ... are received by him ... and shall on every day on which the public offices are open send to the said commissioners the said statements accountable receipts bank sheets discharges accounts and receipts and a copy to be called 'the cash sheet' of so much of the said book as shall not then have been sent by him to them.'

Section 25 'The said commissioners or any two of them on receipt by them of the said cash sheet statements accountable receipts bank sheets discharges accounts and receipts shall examine the same and in the first place ascertain whether the computation is correct and in the next place whether the moneys mentioned in the same respectively have been carried and credited to the proper head of revenue and were legally available for and applicable to the service or purpose to which the same are charged and the said commissioners or any two of

them shall also ascertain whether the regulations ... have been in all respects been complied with.'

Section 26 After examination of the Treasury accounts, the commissioners were to sign an acquittance, effectively finalising the accounts.

Section 28 When the commissioners detected any deficiencies or improper use of funds, they were to surcharge the treasurer 'by deducting the amount thereof from the sum for which the said acquittances would otherwise be given'.

Section 29 On receiving a surcharge the treasurer was to find 'by what person the fraud mistake or error occasioning such deficiency shall have been committed' and recover the money.

Section 30 The commissioners 'shall once at least in every year inspect the books and accounts of every receiver, collector and paymaster'.

Section 31 The commissioners were authorised to demand presentation of any records without payment and to search through Treasury records.

Section 40 The commissioners were to make an annual report to Parliament on the Treasury accounts.

Section 42 'It shall be lawful for the commissioners in such yearly statement or in any special report which they ... may at any time think fit to make to report upon any plans and suggestions that they ... may think worthy of adoption for the better collection and payment of the consolidated revenue ... and the more effectually and economically auditing and examining the public accounts, and any improvement in the mode of keeping such accounts ... and generally upon all matters relating to the public accounts.'

Sections 30 and 42 are deserving of some special comment. Section 30 began the process of inspections, particularly of country districts, that came to be a central feature of the work of the Audit Office for over a century, while section 42 gave the commissioners a surprising degree of latitude in their reports. It did not go so far as to authorise modern performance audits, but it allowed the commissioners to do more than some of their later critics believed.

The system established by the act of 1857 remained in force until 1901. There were two distinct phases in this period, both in the Audit Office and in the wider sphere of Victorian politics and society. The first three Commissioners of Audit appointed in 1857 all remained in office until 1883. These years saw steady economic growth, but political instability, marked by two major political crises in 1865–67 and 1878–79. Between 1883 and 1900 there were no less than six Commissioners of Audit, but a far greater degree of political stability. In the late 1880s the Victorian economy was dominated by a spectacular speculative boom, accompanied by widespread corruption, followed by a severe depression lasting most of the 1890s. Each period offered distinct challenges to the Victorian Audit Office.

The first three Commissioners of Audit appointed on 15 October 1857 were Charles Symonds, Francis Jones and Alfred Agg. In contrast to the first three Auditors-General, who were high profile political figures, Symonds, Jones and Agg were relatively anonymous career public servants. As discussed in earlier chapters, Charles Symonds had been among the initial appointments to the Audit Office, being Chief Clerk, 1851–54 and Examiner, 1854–57. He had remained untainted by the excesses of Hugh Childers' term as Auditor-General and his appointment as a commissioner clearly gave the restructured Audit Office a degree of continuity in its day to day work.



Alfred Agg, Commissioner of Audit, 1857-83.

Francis Jones was the most anonymous of the Commissioners of Audit. We know nothing of his career before joining the Audit Office and, outside his role as a Commissioner of Audit, we know only that he was elected to the Melbourne Club in 1857.

Alfred Agg was the youngest of the new Audit Commissioners, being only twenty-seven at the time of his appointment. The son of an auctioneer, Alfred was born at Evesham in Worcestershire in 1830, being educated at Worcester Grammar School before becoming a clerk with the Great Western Railway in 1845. He came to Victoria in 1850 and joined the public service in April 1852 as a clerk in the Chief Secretary's Department. He achieved recognition for his work as secretary to Governor Hotham's Finance Committee and later as Colonial Storekeeper, where he succeeded in overcoming the chaos left by Childers' failed imprest system and an equally disastrous attempt to set up a Civil Commissary.³ Alfred Agg was admitted as a barrister in 1860, but he never practised. During the early 1870s Agg developed diabetes, an almost invariably fatal illness before the discovery of insulin and the development of appropriate diets. In 1883 he took leave of absence for a world tour and on

his return was appointed one of the three railways commissioners following a reorganisation of the management of the railways. Despite his poor health, he continued with a full workload until shortly before his death in 1886. He fathered nine children, with his second son, Henry, being Chief Clerk in the Audit Office in the early twentieth century. Like Francis Jones, Alfred Agg was a member of the Melbourne Club, being elected in 1855.⁴

Charles Symonds, Francis Jones and Alfred Agg worked together, apparently in complete harmony, for over twenty years. Almost all their reports are written using the plural pronoun 'we', and there was only one, relatively unimportant, issue over which there was even a small degree of public disagreement between them. The Commissioners of Audit shared a common view of their role and the best means to carry it out, and they appear to have worked together as an effective team.

The Commissioners of Audit took a very literal view of their role and responsibilities and if in doubt on any issue they would carefully peruse and analyse the Audit Act in search of guidance. The principles they worked on were set out in their annual reports. They believed that 'our first and most important duty, as the servants of parliament, is to ascertain that the appropriations are not deviated from'.⁵ With this duty in mind, the commissioners felt obliged to pursue any issue until the requirements of the law had been fulfilled. The Commissioners of Audit frequently quoted with approval the comment of Thomas Fellows, the Solicitor-General in several early governments, that 'the object of the Audit Act is to make the Commissioners quite independent of the Government'.⁶ The two main limitations acknowledged by the commissioners were that they could not discuss issues of public policy, and, as they commented towards the end of their long period in office, 'we have never considered it a duty devolving upon the Commissioners of Audit to administer any Act of Parliament other than the Audit Act, or that it was within our province to seek to control the administrative acts of responsible Ministers or other officers charged with executive duties'.⁷ The commissioners often stated that they would always try to avoid embarrassing the government, but not if this involved contravening the Audit Act.

Until 1862 the Audit Office was located in the Treasury building on William Street near the corner of Lonsdale Street. With the completion of the Treasury building at the head of Collins Street, most government offices moved to the east end of the city. For a short time the Audit Office shared rented premises opposite the Melbourne Club with the Commissioner of Police, the Chief Medical Officer and their respective staffs, before moving to the ground floor of the new Treasury building.⁸ It is uncertain when the office moved to its long-term home on the third floor.



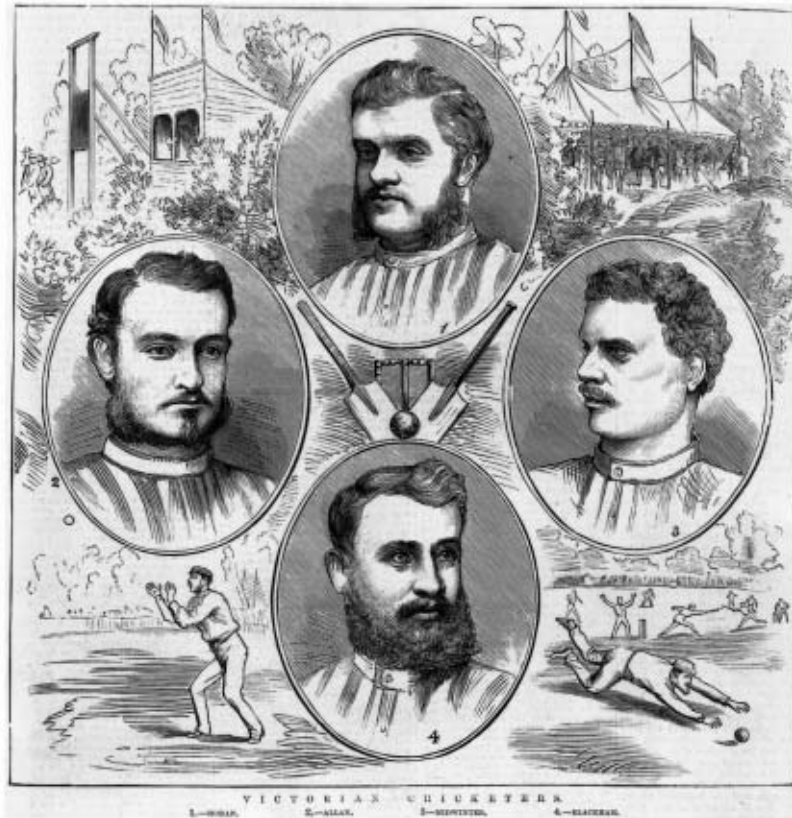
Treasury Building 1863. The Audit Office was situated on the top floor from the 1860s until 1968.
(La Trobe Picture Collection, State Library of Victoria.)

In 1860 the Audit Office was transferred from the Treasury to the Chief Secretary's office. When questioned in Parliament on the reasons for this move, the Treasurer, James McCulloch, explained that, 'the Audit Commissioners were appointed as a check upon the Treasury, and he therefore thought it would be best for them to be placed under an independent head'.⁹ While one could question the extent to which the Chief Secretary (in those days invariably the Premier), could be regarded as independent, it is interesting that the Treasurer apparently chose to loosen his control over the Audit Office.

The number of staff in the Audit Office fell in 1855 following the closure of the imprest section and the transfer of many non-audit functions to the Treasury. When the three Commissioners of Audit took office in October 1857, they had a staff of fourteen. The Civil Service returns show that it was a young, all-male staff. All but one of the audit clerks was under forty and eight were under thirty. Seven were born in England, four in Ireland, one in Scotland, one in Wales and one in New South Wales, while ten were Anglicans, one Independent, two Congregationalist and one Plymouth Brethren (the only one in the whole public service).¹⁰ It is significant that the Audit Office was dominated by Anglicans and that there were no Catholics in the office, suggesting that there was an element of sectarianism in the appointment of new staff.

In response to widespread criticisms of the public service, in 1856 Parliament appointed Professor William Hearn to chair a board of inquiry. Hearn proposed a thorough reform of the service, based around an independent public service board and appointment through competitive examination.¹¹ However, politicians were not yet prepared to give up the power of patronage and it was not until 1883 that Hearn's recommendations formed the basis for a complete restructure of the public service. Consequently, until that date staff in the Audit Office, like other public servants, were appointed, not on the basis of merit, but on the strength of their connections or on the recommendation of a politician. Despite this, the staff of the Audit Office appear to have been competent and well-regarded in this period.

As in most departments, the senior staff of the Audit Office was fairly stable in this period. Clerks such as John Dunn, Samuel Thomas, William Brooks, George Guillaume and Walter Shaw remained at the office for decades, giving a high level of experience and continuity. Edward Symonds, who had joined the office at the age of thirteen in 1852, rose to become chief clerk in 1877, before moving to the Postmaster General's Department in 1887. The most notable of the junior staff in this period was Thomas Horan, the outstanding sportsman in the history of the Audit Office. Horan was born in Ireland in 1854, emigrating to Australia with his parents in 1856. Horan's father was a building worker and one of his first jobs on arriving in Melbourne was on Black Rock House, then being built for the first Auditor-General, Charles Ebden. We know nothing more of Tom Horan before he joined the Audit Office in 1873. He was a member of the East Melbourne Cricket Club and, after establishing himself as Victoria's leading batsman, he played for Australia in the first test match against England in 1876-77. He was a member of the 1878 and 1882 touring teams to England, playing in the historic match at the Oval in 1882 that led to the birth of 'the Ashes'. He captained Australia in one test match during the 1884-85 series when many other senior players went on strike for more pay. Horan was described as a 'short and thick-set Irishman' with a 'round, good-humoured countenance, framed by a luxuriant set of mutton-chop whiskers and a breadth of brow that illustrated his above average intelligence'.¹² He played fifteen test matches, scoring one century and taking part in the first century partnership in Australia. Following his retirement as a player in the mid-1880s, Horan wrote on cricket for many years under the pseudonym 'Felix'. He worked in the Audit Office for forty-three years until his death in 1916.



Tom Horan (top) pictured with other leading Victorian cricketers shortly before the first test match, Illustrated Australian News, 24 January 1877. (La Trobe Picture Collection, State Library of Victoria.)

The Victorian economy and the role of government expanded steadily in the period 1857–83, leading to a steady increase in the work and the staff of the Audit Office. The office had fourteen clerks in 1857, twenty in 1874 and twenty-two in 1883. In most years the appropriation for the office was passed without question, but on two occasions, questions were raised in Parliament on the staffing levels. On 4 March 1869 Mr Byrne, the MLA for Crowlands, queried the increase in the budget appropriation for the office and asked whether it would be possible to reduce the staff. James McCulloch, the Premier replied that,

He was satisfied that the department could not be efficiently carried on with a reduction of staff. The accounts connected with all the various Government departments had to be examined at the Audit Office, and it was necessary that this work should be thoroughly done. The business of the country which furnished work for the Audit Office was increasing year by year, and the Railway department alone would add considerably to it in the future. **He did not believe that there was a harder worked class of civil servants than the Audit Commissioners and their subordinates.**¹³

Shortly after, Mr MacPherson, the MLA for Dundas, ‘expressed some surprise that the Audit Commissioners should require a staff of nineteen clerks’ and called for an inquiry. Again Mr McCulloch staunchly defended the office:

He felt satisfied that the clerks were all required, and offered to take the honourable member for Dundas over the Audit Office, to enable him to see the amount of work which was performed. Every account and every payment connected with the public service came under the inspection and supervision of the Audit department ... It was most important to secure a thorough and efficient check upon all the public accounts, and he trusted the House would never pass a resolution which would prevent the Audit Commissioners having a staff sufficient to perform their duties properly. The Audit Commissioners had always acted independently of any Government. If any document was submitted to them which they thought was not right, they had no hesitation in refusing to sanction it. One of the greatest securities for the proper expenditure of the public money would be destroyed, if the department was not properly maintained.¹⁴

Before the Audit Act of 1857, all vouchers and accounts of government departments and officials were sent to the Audit Office for inspection, but the new act began one of the institutions of the office, the country inspection tours. Under section 30 of the Audit Act, the Audit Commissioners were required to 'once at least in every year inspect the books and accounts of every receiver, collector and paymaster'. The commissioners personally undertook this task, and at any time one of them would be on the road. Unfortunately none of their tales of hardship and adventure has survived, but some inkling of them is given in the commissioners' reports. In their fifth annual report, the commissioners noted that,

Year by year, as the colony extends and the number of Government offices increases, the duty of inspection becomes more onerous. Even at the present time the offices number upwards of four hundred, and the different series of accounts at least six hundred; and the Commissioner inspecting the offices in the country districts travels, in the course of each year, at least 4,500 miles — visiting every public officer entrusted by the Government with the receipt or expenditure of the public moneys.¹⁵

In the early 1860s the Victorian railway system was still in its embryonic form. The railway did not reach Ballarat or Bendigo until 1862, so the inspecting commissioner would have had to travel by Cobb & Co. coach to most major centres, and on horseback to the many settlements inaccessible by coach. The gold rushes had led to an enormous dispersal of the population, with dozens of remote settlements in places long since forgotten, and all these settlements had at the least an officer to collect revenue from miners' rights, whose accounts the Commissioners of Audit were obliged to inspect. Even in 1877, when the railway system had expanded, the commissioners explained that they had found it impractical to visit Bendoc, Tintaldra, Cowana and Euston 'without incurring great risk of impeding public and Treasury business by a prolonged absence from Melbourne'.¹⁶ Two years later, however, they proudly announced that they had been able to reach Bendock and Willis for the first time.¹⁷ The author is impressed that the Commissioners of Audit knew where these places were, and amazed that they could get to them.

The Commissioners of Audit frequently found that public servants, particularly in the country areas, were totally ignorant of even basic bookkeeping and looked forward to the

commissioners' visits in the hope of having their accounts written up for them. In 1874 Alfred Agg told a parliamentary committee of his experiences during an inspection of the lands office at Echuca:

The Land officer was a police magistrate — a very intelligent and active officer: but when I got to Echuca he told me that he had left his accounts for the last four months for me to make up. His name is Langford. He was put in charge of the land business without any knowledge of accounts. He told me that I said I could not make up his accounts for him, I should wait until he made them up; and he said he would send in his resignation that evening. I thought it hard upon the man, and I knew I could do it if he could not, so I worked with him for four days till eleven o'clock at night. He had eventually to receive a considerable sum of money from the Government which he had over paid; but he told me afterwards that he would not for a thousand pounds go through the same ordeal that he did with me during those four days.¹⁸

The task which kept most of the Audit Office clerks busy was the audit of the Treasury accounts. The accounts were audited both before and after payment. Payments could only be made after the Commissioners of Audit certified that the money was legally available and applicable to the specified purpose. The most laborious phase was the retrospective audit of all Treasury receipts and payments. The Treasury accounts with related vouchers were sent to the Audit Office daily, where, as the commissioners noted in 1861, 'the audit of the Treasurer's daily accounts now takes place within the briefest possible period after the date to which they relate ... it is now the established practice of this office to complete the examination of these accounts upon the second day following that upon which they are received.' As part of the audit of the Treasury accounts, the Audit Office clerks made a complete copy of the Treasury ledgers, a process which was both time-consuming and frequently criticised. However, it continued for many years, suggesting that it was a necessary procedure both to ensure the security of the Treasury accounts in case of loss or fire and to facilitate the audit process. It is difficult to imagine the challenges of ordinary office and accounting work when reproducing a document or set of figures involved copying by hand with pen and ink.

In most years during the period 1857–83, the Audit Commissioners drew attention to some issues arising from the Treasury audit. Frequently these were relatively unimportant, or related only to special circumstances in a particular year, but there were several major issues which dominated the commissioners' reports over several years. The first of these concerned when money became 'legally available' for payment by the Treasury. This issue was raised by the commissioners as early as December 1857 and recurred regularly in the early 1860s. It became of critical importance during the constitutional crises of 1865–68 and 1878–79 when the governments of the day were unable to get supply bills through the Legislative Council, and will be dealt with fully in the next chapter.



Treasury Building from the Fitzroy Gardens 1861.
(La Trobe Picture Collection, State Library of Victoria.)

During the 1870s there was a lengthy dispute between the Audit Office and the Treasury arising from ill-judged amendments to the Audit Act passed in 1872. Introduced by the Treasurer, Edward Langton, on 18 September 1872, the aim of the amendment was ‘to provide that any sums voted for the service of any year should be available only for the services and purposes which came in the course of payment during the year’¹⁹ — in other words, to limit the expenditure of public money to the financial year in which it was voted. The stated purpose of the amendment was to simplify the public accounts and enable them to be finalised more promptly after the end of the financial year. In debate, several members noted that Alfred Agg had spoken against the proposal in evidence to a parliamentary committee, arguing that the change would lead to fundamental distortions in the process of auditing the Treasury accounts.²⁰ Despite this, the amendment became law and the new system came into force for the financial year ending 30 June 1873.

Over the next eight years, until the repeal of the amendment, the Audit Commissioners emphasised that they were unable to be sure of the true state of the Treasury accounts at the end of each financial year and that the accounts were open to manipulation by the Treasurer. In their 1874 report they gave a figure for the balance of the consolidated revenue at 30 June 1873, but noted that ‘we are not able, under the new system of closing the Votes, to certify that the balance thus brought out is the true surplus. Formerly the surplus was brought out by

operation of law; now it is at the discretion of the Treasurer.’²¹ The Commissioners of Audit made no allegations that the Treasurer had in fact manipulated the accounts, but showed how it could easily be done by withholding or advancing payments. Under the new system, the commissioners believed that many departmental financial statements were not ‘accounts’ but merely ‘estimates’.

This report led to a vigorous debate in the Legislative Assembly. Sir James McCulloch used the report to argue that ‘we have now abandoned the check which we formerly had on the Treasurer of the day’ and suggest that the amendment to the Audit Act had led to a diminution in Parliament’s control over the executive.²² When Sir James sat down, Mr Langton, the Treasurer, rose to reply and, for the next hour attacked the Audit Office with a passion not seen again until the 1990s. Langton told the House that ‘the last wish that I have is to attack gentlemen in the position of Audit Commissioners’ and then proceeded to fulfil his last wish. Langton argued that the Commissioners of Audit regularly interfered in matters of government policy and administration, and he suggested that they had neglected their proper functions in their enthusiasm to involve themselves in policy issues. He argued that the Audit Commissioners’ claims about the defects of the amendments to the Audit Act were unjustified and the system was working well. He concluded:

I must take the opportunity of expressing the opinion that, when this House has passed an Act of Parliament and adopted a policy in regard to finance, or in regard to anything, it is not the business of the Audit Commissioners to criticise that policy; nor is it their business to load their reports with a number of statements which do not relate to the integrity of the public accounts.²³

However, the government was in the final stages of decay and Mr Langton received little support from his own side of the House. Five weeks later the Francis government fell and Mr Langton moved to the backbenches, from where he continued his vendetta against the Audit Office for several years, regularly speaking and voting against its estimates.

Throughout the 1870s, the Audit Commissioners pointed out the unsatisfactory system of Treasury accounts, ‘by reason of its want of certainty and of finality’. Finally, in 1880 they set down an ultimatum in the strongest language they ever adopted: ‘We beg therefore respectfully to suggest that a change in the mode of terminating the year’s accounts is absolutely necessary.’²⁴ This prompted the government into action and the objectionable amendments were repealed in June 1880.

To show clearly that the Commissioners of Audit were not subject to political considerations in their audit of the Treasury accounts and did not favour those who had supported them in the debates of 1872 and 1874, in 1880 they made one of their strongest criticisms of the actions of the Treasury. The commissioners pointed out that the Treasury had paid £100,000 to the credit of the Railway Loan Liquidation Account by means of a journal entry at a time when there was ‘no Consolidated Revenue in the Treasury’. They continued, ‘the Journal Entry purporting to make this credit at 30th June 1879, without cash

to support it, appears to us to be altogether bad, and such as the Treasury ought not to make'.²⁵

After the Treasury audit, the areas that gave the Audit Office most concern during the period 1857–83 were the Lands Department and the Education Department. The Selection Acts of the 1860s which sold off vast areas of Crown lands throughout Victoria, were the subject of widespread evasion and corruption, and the Lands Department, which administered the acts, was a continual worry for the Commissioners of Audit. Between 1862 and 1873 a Lands Department clerk committed the largest defalcation by a public servant in the nineteenth century. The Lands Department and the O'Ferrall case will be discussed in the next chapter. Similarly, the railways became one of the main areas in which the corruption and rampant speculation of the 1880s was manifested and the long-term concerns of the Audit Commissioners will be discussed in that context in chapter seven. Until 1872 the education system was run by two rival boards, one for church schools and one for 'national' schools. Both boards received government grants, and these grants caused frequent problems for the Audit Office, as the use to which the funds were put often differed greatly from the purposes proposed in the relevant Appropriation Act. In addition the commissioners criticised the education boards for their unnecessarily complicated accounting systems.²⁶ The problems with education changed fundamentally with the revolutionary Education Act of 1872. This act set up an Education Department to bring 'free, secular and compulsory' primary education to every child in Victoria. This was an enormous task, which was approached with great energy by Wilberforce Stephen, the first Minister for Education, and his successors, but it also led to regular clashes with the Commissioners of Audit. The reason for this is that the speed with which the Education Department built new schools and employed new teachers tended to exceed the appropriations voted by Parliament for these purposes. For example, in both 1881 and 1882 the commissioners drew attention to the fact that the department had appointed 335 more assistant teachers, pupil teachers and 'workmistresses' than allowed for by the appropriation for the department.²⁷ Fortunately, until the depression of the 1890s the Parliament tended to increase the education vote rather than force a reduction in the number of teachers.

An interesting incident which threw light on the relationship between the Audit Office, the government and the public service occurred in late 1874. In November 1874 a question was asked in the Legislative Assembly concerning a rumour that Alfred Agg had been suspended over a clerical error. The government denied the rumour, but the following week, Joseph Jones, the MLA for Ballarat West, 'drew attention to the case of Mr Agg the officer responsible for some mistakes which occurred in reference to the salaries of unclassified officers in the Lands department ... He said that the error was a very trifling one and Mr Agg ought not to be punished for it.' Replying for the Government, Mr Casey 'stated that a very important question had been raised by Mr Agg, who denied that there was any power of dealing with him under the Civil Service Act. At present he (Mr Casey) would express no opinion upon it as the matter had been referred to the Law officers.' It took only a quick

perusal of the Audit Act for the law officers to conclude that Agg was correct, and the government did not attempt any further action against him.²⁸

As the three Commissioners of Audit advanced in years and approached retirement a significant omission became apparent in their conditions of employment. Since they were not employed under the Civil Service Act, they were not eligible for the generous superannuation available to public servants. This became an issue in 1875 when Francis Jones wished to retire to England to act as executor for the estate of a wealthy relative. However, he was not able to get a pension from the Victorian government, so he continued to collect his pay while absent from the colony. This led to several questions in Parliament. For example in July 1878 Mr Gaunson, the MLA for Ararat, asked the Chief Secretary,

How long one of the Audit Commissioners (now in England) had been absent from the colony, and what pay he had drawn during such absence? He had been informed ... that one of the Audit Commissioners had been absent from Victoria for some years, drawing full pay during the time, and that he was engaged in England in connexion with the winding-up of the estate of a private gentleman.

Mr Berry, the Premier and Chief Secretary, replied:

Mr Audit Commissioner Jones has been absent from the colony since the 1st of January 1876, and he has drawn half-pay during such absence. It may be added, by way of explanation, that when Mr Jones applied for leave of absence he was desirous of retiring altogether from the service, on the ground of failing health, but there was no legal provision for granting him a retiring allowance. When he left the colony it was intended to introduce a Bill, in the then ensuing session of Parliament, to provide superannuation allowances for the Commissioners of Audit as if they were under the Civil Service Act. The state of public business did not allow the matter to be dealt with, and Mr Jones was accordingly allowed to remain on leave on half-pay pending legislation or until further notice. The other half of his pay had been saved to the Treasury.²⁹

In 1879 Mr Berry insisted that the absent commissioner come back to Victoria, but on his return Mr Jones presented medical certificates showing that he was incapable of returning to work and he continued to receive his half-pay out of the appropriation for the Audit Commissioners. The following year the government included a provision in an appropriation bill for an annual pension of £450 for Mr Jones, but several eminent parliamentarians including Sir John O'Shanassy and James Service spoke against the provision on the grounds that it would create an undesirable precedent and the item was withdrawn.³⁰ It was not until the *Public Service Act 1883* that proper provision was made for pensions for the Commissioners of Audit. By this time Francis Jones had returned to England, where he died in 1885.

Francis Jones's lengthy absence from Victoria placed his colleagues, Charles Symonds and Alfred Agg, in an awkward position. Their workload had not diminished and the legislation stipulated that the commissioners should personally undertake all inspections so

they urgently needed the assistance of a new commissioner. On the other hand they had a strong sense of loyalty to Mr Jones and did not want to worsen his situation. As long as Jones's income came from the normal vote for the Commissioners of Audit, they stayed very quiet and did not demand a replacement. Unfortunately the Parliament noted that two commissioners appeared able to carry on the work of the Audit Office and it was not until the Audit Commissioners were given the additional responsibility of running the Public Service Board in 1893, that a third commissioner was again appointed.

Although Charles Symonds, Alfred Agg and Francis Jones faced major challenges and several serious crises during their lengthy tenure as Audit Commissioners, in general the work of the Audit Office proceeded smoothly and without incident from year to year and their work attracted little public comment. However, in March 1865, the *Argus* published an editorial on the Audit Office, which paints the achievements of the commissioners in such glowing colours that the cynical reader might wonder whether it was a paid advertisement rather than an editorial.

It was a fortunate day for the colony when HER MAJESTY'S assent was given to the Audit Act. We owe much to the sagacity of the authors of that measure. To the Commissioners themselves a debt of gratitude is due for the painstaking care with which, for the last seven years, they have investigated the state of the public accounts, unravelled tangled knots, and followed up traces of error, in so thorough and searching a manner that the public may rest satisfied as to the general condition of the accounts of the state ...

The Commissioners, we are glad to find, do not complain of the extra labours thus cast upon them. They have accepted the trust reposed in them in the most faithful spirit; and the arrangements they have made are so studiously economical, as well as efficient, that they cannot but have general acceptance. While we praise them, therefore, for the courage with which they have spoken out against flagrant derelictions of duty on the part of the Commissioner of Customs, the Treasurer, and the law officers of the Crown, we have also to commend them for the patient spirit of inquiry exhibited in other portions of the report before us. They are the watchmen stationed upon the tower; and while they are faithful, the public may rest satisfied that nothing serious can take place in the management of the public accounts, without a warning cry being raised. Much, we repeat, does the colony owe to the forethought and capacity of the authors of the Audit Act.³¹

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- ¹ *P.D.*, vol. 1, p. 462.
- ² *P.D.*, vol. 2, pp. 670–1, 27 May 1857.
- ³ Rusden, *History of Australia*, vol. III, p. 32.
- ⁴ The main source of information on Alfred Agg is an obituary in the *Australasian*, 23 October 1886
- ⁵ *Eleventh Annual Report of the Commissioners of Audit*, 1868, p. 78.
- ⁶ Opinion dated 24 December 1857 quoted in *First Annual Report, 1859, Special Report of the Audit Commissioners*, 12 October 1865, and other reports.
- ⁷ *Twenty-fifth Annual Report of the Commissioners of Audit*, 1882, p. 101.
- ⁸ *Argus*, 21 June 1862.
- ⁹ *P.D.*, vol. 6, p. 398, 24 January 1860.
- ¹⁰ Civil Service Returns, 1858–59, *VPP*, 1858–9, vol. 2, p. 875.
- ¹¹ Cannon, *Melbourne After the Gold Rush*, p. 122.
- ¹² Brian Crowley, *A Cavalcade of International Cricketers*, London, 1988, p. 35.
- ¹³ *P.D.*, vol. 7, p. 141, 4 March 1869 (the emphasis is the author's).
- ¹⁴ *P.D.*, vol. 7, p. 141, 4 March 1869.
- ¹⁵ *Fifth Annual Report of the Commissioners of Audit*, 1862, p. 149.
- ¹⁶ *Twenty-first Annual Report of the Commissioners of Audit*, 1877, pp. 68–9.
- ¹⁷ *Twenty-third Annual Report of the Commissioners of Audit*, 1879, p. 92. After much research, the author has discovered that Euston is near Robinvale, Tintaldra is on the Murray north of Corryong and Bendoc is in the mountains of East Gippsland. All are on or near the New South Wales border suggesting they may have been customs posts. Cowana and Willis appear to have disappeared completely.
- ¹⁸ Progress Report from the Select Committee upon the O'Ferrall Frauds, *VPP*, 1874, vol.1, p. 36.
- ¹⁹ *P.D.*, vol. 15, p. 1406, 18 September 1872.
- ²⁰ *P.D.*, vol. 15, pp. 1432–3, 19 September 1872; p. 1725, 9 October 1872.
- ²¹ *Seventeenth Annual Report of the Commissioners of Audit*, 1874, p. 67.
- ²² *P.D.*, vol. 18, pp. 422–31, 18 June 1874.
- ²³ *P.D.*, vol. 18, pp. 431–43, 18 June 1874.
- ²⁴ *Twenty-third Annual Report of the Commissioners of Audit*, 1880, p. 86.
- ²⁵ *Twenty-third Annual Report of the Commissioners of Audit*, 1880, p. 85.
- ²⁶ For example, *Second Report of the Commissioners of Audit*, 1860, p. 104.
- ²⁷ *Twenty-fifth Annual Report of the Commissioners of Audit*, 1882, p. 109.
- ²⁸ *P.D.*, vol. 20, p. 2121, 24 November 1874; and pp. 2233–4, 1 December 1874.
- ²⁹ *P.D.*, vol. 28, p. 24, 10 July 1878.
- ³⁰ *P.D.*, vol. 32, p. 2487, 29 January 1880.
- ³¹ *Argus*, 8 March 1865.
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6

The Lands Department and the O’Ferrall case

The concerns of the Audit Office with the operation of the Lands Department might seem odd to contemporary eyes, as the functions of that department are now just a small part of the Department of Natural Resources and Environment. However, during the Selection Act era of the 1860s, the Lands Department became responsible for supervising the sale of millions of acres of Crown lands and collecting payments and licence fees from the tens of thousands of purchasers. This enormous task almost overwhelmed the limited resources of the department, leading to the Audit Office’s well-founded fears for the integrity of the government revenue.

Before the Selection Acts, almost all the pastoral and agricultural land in Victoria was in the hands of the squatters who had held it under various forms of pastoral licence since the first white settlement. The aim of the Selection Acts was to ‘unlock the lands’, by throwing open the squatters’ enormous runs for selection by aspiring small farmers and enabling them to pay off their land over time. Successive Land Acts in 1860, 1862, 1865 and 1869 attempted to find a method to ensure that land was purchased by genuine farmers rather than ‘dummies’ acting on behalf of the squatters. The first two Land Acts were disastrous failures in this regard, with most land sold passing directly or indirectly to the squatters. The third act tended to increase the price the squatters paid, but still failed to settle many small farmers on the land. By 1869 virtually the entire Western District had been bought by the squatters. However, large areas of land in the Wimmera, Gippsland and central Victoria were still available for selection, and the 1869 act finally established a sound system of selection and land sales, leading to a dramatic increase in the number of small farmers in these areas — and a consequent increase in the work of the Lands Department.¹

The Selection Acts led to widespread corruption in rural Victoria as dummies, land sharks and unscrupulous agents successfully lined their pockets while delivering millions of acres of land to the squatters. Inevitably, the corruption spread through the Lands Department itself which was responsible for supervising the workings of the acts. During the 1860s several regional officers of the department were dismissed for allowing blatant evasion of the Land Acts, and many others retired from their lowly-paid positions as wealthy men.

The Commissioners of Audit did not see the details of the workings of the Selection Acts as their responsibility, but they were deeply concerned with the enormous amounts of money passing through the Lands Department as a result of the acts. As both the land sales and the collection of payments were the responsibilities of the Lands Department, the department handled vast sums of money during this period, collecting well over £500,000 each year in the early 1870s. The Audit Commissioners were aware of this and pointed out the possible dangers, noting in 1866, 'The Crown, in this colony, is rapidly becoming one of the largest landlords in the world ... and the greatest care in collecting the rents will be requisite.'²

From the early 1860s, and particularly from 1869, the Audit Office regularly warned of areas in the Lands Department's operations that were lax or open to abuse. For example, in 1863 Commissioner Agg reported on the accounts of Mr Arthur Morrah, a senior clerk in the Lands Department (and later to become a Commissioner of Audit). Agg commended Morrah for the accuracy of his accounts, but went on to comment on the complete lack of an internal audit in the department:

There is, however, one fallacy which, as it appears to me, underlies the whole of the business of the Land Sale branch; and though attention has, I believe, been called to it by the Treasury in past years, yet no change of real moment has been made, and the department still exposes itself to mistake or fraud. I allude to the fact that the Crown grants [of land selected under the Land Acts] continue to be prepared from the reports of the officers who collect the moneys without ascertaining that the money has reached the Treasury ... If a Land officer were to collect money and apply it to his own uses, but nevertheless included it in his returns to the Land office, omitting it from the Treasury return, or if, without receiving any money at all, the Land officer were to set down exclusively in the Land office return a lot as sold to a particular person, the Crown grants would nevertheless issue, there being no means at present in the Lands Department by which the fraud would be discovered.³

At the major parliament inquiry into the Lands Department in 1874, the Commissioners of Audit were cross-examined at great length on their reports on the department over the years. On 26 August the chairman of the committee, Robert Murray Smith, questioned Alfred Agg:

Q. Does the Lands office differ in its organization and management materially from other departments?

A. Altogether.

Q. Has it always done so?

A. Since the Land Act of 1862 ...

Q. And since that date you consider that the management of the Land office has been disorganised?

A. Not altogether. No. When Mr Grant was in the Lands office, for some years it was conducted with as great vigor as any department in the public service, but for the last four or five years I consider that the department has been utterly disorganised, and the management has devolved principally upon the Audit office. I mean to say the management of the money matters.

Q. Then about what date do you fix the commencement of the disorganization?

A. It has been worse since the Land Act of 1869. The Land Act of 1869 extended the system of selection, it allowed selectors to peg out their allotments before survey, and gave the Lands office ... very much more business than ever they had before in rectifying the boundaries of allotments, and from that time I think they have not looked so closely after the revenue as they did in Mr Grant’s time.

Q. Have you then since 1862 called attention in your various reports to the state of disorganisation in which you found the Lands office generally?

A. ... I called attention in the strongest language which I could with propriety make use of, and I showed every defect that I knew of ... I have always tried ... to get the money business of the Lands department moved into the Treasury.⁴

Unfortunately, in spite of regular warnings by the Audit Commissioners, the Lands Department’s revenue security did not improve and defalcations were common. One of the most serious was uncovered in January 1873. Alfred Agg, while inspecting the Lands Department accounts in Geelong, discovered serious deficiencies in the accounts of a licensing agent, Mr Bryant, who had recently died. Agg reported that,

A rigorous investigation was at once commenced, which, by the aid of a private cash-book that had been found amongst the papers, led to the discovery that the deceased officer had been in the habit of receiving moneys on account of Crown lands licenses, and not issuing the licenses, nor accounting for the money, the licensees not caring to apply for the issue of the licenses in due form so long as they were allowed to remain in undisturbed possession [of their land]; that in other cases the defaulter had converted short period into long period license forms, receiving fees for the longer, but accounting only for the shorter period licenses.⁵

Agg’s inspection showed that Bryant had stolen £873, none of which could be recovered.

Following the Bryant defalcations, the Audit Commissioners made detailed recommendations on measures to avoid further irregularities in the Lands Department, but before they could be implemented, another, far larger defalcation was discovered.

Mr Hugh O’Ferrall, like Bryant, had been a Lands Department licensing agent for many years. Over that time, his accounts had been inspected every year with no signs of anything

amiss. However, in October 1873 when the inspection of O’Ferrall’s accounts was due, the Audit Commissioners received information that he had returned a cheque he had received for a licence because it was crossed. This naturally aroused suspicion and Francis Jones, the inspecting commissioner, decided to ‘go behind all the vouchers and accounts’, construct a register of Crown licensees and work back from that to conduct a full audit of O’Ferrall’s accounts. On 14 and 15 October Commissioner Jones and O’Ferrall worked together on the accounts and ‘found no error’. Jones then told O’Ferrall that the following day he would begin to construct a register. However, the next morning O’Ferrall did not come to work, sending this letter to his superior, C. H. Fletcher,

Dear Fletcher,

I have been throwing up some blood last night and am so weak that I can’t go down to the office today, so you must put off my friend Jones till tomorrow,

I remain, my dear Fletcher,

Yours sincerely,

Hugh O’Ferrall⁶

O’Ferrall was never seen again. His wife told Mr Jones that he had gone to Colac or possibly Cranbourne, but except for an unconfirmed sighting in New Zealand some months later, there was no trace of O’Ferrall or the missing licence fees.

After a delay of several days (caused because O’Ferrall had taken all the keys to his office and the Lands Department would not allow Mr Jones to force open the door) the inspection continued. A thorough search of O’Ferrall’s room found large quantities of unpriced licence forms hidden behind his desk and in the ceiling, as well as various cash books and butts of issued licence forms. These enabled the auditors to piece together the true state of O’Ferrall’s accounts and, after several weeks, Commissioner Jones was able to report that O’Ferrall had stolen at least £20,000 — an enormous sum in an era when the annual pay of a mid-level public servant would not exceed £400 (O’Ferrall himself was paid £300), and by far the largest defalcation by a public servant in the nineteenth century.

The basic method by which O’Ferrall committed his frauds was through the use of large quantities of unpriced licence forms which were supposed to have been destroyed several years earlier. As an example, he would issue a licence to a farmer for £20 but fill in the butt for only £5. The £5 would be remitted to the Treasury and thus would balance with the butt for that amount when his accounts were audited. The remaining £15 would end up in O’Ferrall’s pocket. Naturally he preferred payments to be in cash or uncrossed cheques. As the Commissioners of Audit emphasised in their reports on the fraud, ‘O’Ferrall’s accounts show no discrepancy as tested by the vouchers produced at the various times for inspection’.⁷ It was only when Mr Jones began to construct a register to show the licence fees that should have been received, that the frauds were revealed.

It is obvious that a simple fraud like O’Ferrall’s could only be carried out in an almost total absence of supervision. The Audit Office had previously pointed out the dangers of

disorganisation in the Lands Department, but nothing had been done to address the many problems. Following the O'Ferrall case, a senior Treasury official, Robert Gudemann, made a detailed report on the department. He showed that on paper the Lands Department had a perfect system for the regulation of revenue collections, but in practice the regulations were widely ignored. The want of control and supervision was greatest in the Occupation Branch, responsible for the issue of licences, where O'Ferrall worked. Gudemann showed how the Assistant Commissioner of Crown Lands, Clement Hodgkinson, delegated his responsibilities to C.H. Fletcher, the head of the Occupation Branch, who in turn had gladly accepted Hugh O'Ferrall's offers to take on extra duties. Gudemann concluded,

Had the registration of licenses prescribed been faithfully and systematically carried out, and been authenticated by check with the Board records of transactions ... there would have been the foundation for a system of books by which every periodical payment as it fell due, could have been traced ... and Mr Fletcher, had he made any attempt at carrying out the duties he told the Commissioners were his, would have been forced to establish such records, and further, had he, as directed by the regulation, taken charge of the stock of the license forms and their issue, and exercised such control as was by right to have been expected of him, the opportunity of O'Ferrall's possessing himself, by stealth, of license books, and using them for his own benefit, would never have occurred; but a comparison between the audited cash books which show the revenue accounted for, and the amounts to be received, was never instituted by Mr Fletcher, and as regards the records of the receipt and issue of licenses, he had forgotten the very existence of the license register ... though he himself had kept it for 1860 and 1861 ...

The system of the issue of licenses was radically defective, and could have proved harmless only in the hands of honest persons.⁸

In August 1874 the Legislative Assembly set up a select committee to investigate the O'Ferrall frauds. The committee was one of the most eminent ever set up by the Victorian Parliament, containing five past or future premiers and with most other members having ministerial experience. The dominant member was Mr J. J. Casey, the Minister for Lands, who saw the inquiry as a means of defending his department and was determined to show that the blame lay elsewhere. Chief among his targets were the Commissioners of Audit and the inquiry was largely concerned with the performance of the Audit Office. In modern terms, it can be seen as the first performance audit of the Audit Office.

From the point of view of the history of the Audit Office, the select committee on the O'Ferrall frauds is particularly interesting as the three Commissioners of Audit were all questioned at length, with their evidence recorded verbatim. Thus we are able to read the commissioners' defence of their role in their own words, and it is the closest we can get at this distance in time to hearing their voices. It is significant that the commissioners were able to present a united front to the inquiry and gave each other total support on every issue, even under intense cross-examination.

Francis Jones, as the commissioner who detected the frauds, was the first to undergo examination, on 20 August 1874. Jones went on the attack from the start, showing that the

papers on the case submitted to the committee by the Lands Department had been deliberately manipulated to move blame from the department to the Audit Office. One of the main aims of the Lands Department and its supporters on the committee was to show that the Audit Office had been negligent in its audits of O'Ferrall's accounts and Commissioner Jones was quizzed at length on the adequacy of the audit process. In response Jones argued that the commissioners went far beyond the minimum requirements of the Audit Act in their inspections, but 'we must stop somewhere'. During the cross-examination, Mr Casey attempted to blame Mr Jones for not reporting the defalcations sooner, suggesting that this allowed O'Ferrall to escape. He asked Jones why he had not personally reported the matter to him, but Mr Jones explained that this was not possible as, 'I had not the pleasure of your personal acquaintance.'⁹

When O'Ferrall's superior, C.H. Fletcher, was cross-examined, the only defence he gave for his failure to properly supervise O'Ferrall's activities was that he relied on the Commissioners of Audit to do this. This claim was put to Alfred Agg, the next commissioner to be questioned. Agg's defence had several facets. He argued,

first, that the evidence of a certificate given by a disinterested public officer, not being himself a collector, must ... be the starting point in any investigations by the Audit Office; second, internal check and supervision are left by the Audit Act and the regulations to the department concerned; third, the Audit Office has never led up to any other belief, but has given repeated warnings, sometimes even in reports to the Legislative Assembly, that the departments ought to supervise their own business.¹⁰

In their audits of Hugh O'Ferrall's accounts, the auditors had always relied on Mr Fletcher's certificate that O'Ferrall's collections were accurately accounted for, though, as Fletcher testified, he simply signed whatever O'Ferrall put in front of him. It was only when the commissioners became suspicious and went behind Fletcher's certificates that the frauds were discovered. However, the Audit Office had neither the resources nor the legal responsibility to do this in any but a tiny minority of cases, so the commissioners emphasised the need for departments to have sound systems of internal audit. As Alfred Agg pointed out, in the O'Ferrall case the system failed 'simply because Mr Fletcher did not do his duty'.¹¹

Charles Symonds developed the same themes in his replies to questions on the failure of the Audit Office to detect the frauds earlier. When asked why the Commissioners of Audit did not go behind the statements submitted by Fletcher, he explained:

Our authority for doing anything when we visit an office ... is the 36th section of the Audit Act, which says we shall 'inspect'; now an inspection is a very different thing to an audit, though I do not wish to base any defence upon the distinction, for we have voluntarily passed beyond the limits of an inspection, and done a great deal of examination, but the Act does not require us to go into all kinds of books kept by persons not under the Audit Act.

Graham Berry then asked Symonds, 'do not you think that it came within the duties of the Audit Commissioners to satisfy themselves that the system of the collection of moneys due

to the public was effective, and that the money due to the country was coming into the Public Treasury?' Symonds replied,

As regards the expenditure of money, no doubt the Commissioners of Audit are properly held responsible to see that nothing goes out without the consent of the Legislature ... but the Commissioners of Audit cannot be held responsible for all the money that ought to come in, that is the Treasury's business, rather than ours ... Our main duty in regard to the revenue is to see that what is collected comes into the Treasury.¹²

The Minister for Lands, Mr Casey, then subjected Commissioner Symonds to a vigorous cross-examination in an attempt to establish that the commissioners had been derelict in their duty in the O'Ferrall case, but he was unable to shake Symonds from his consistent exposition of the role of the Audit Office as laid down in the Audit Act. When asked, 'Then is it not a fact that if the public and Parliament have hitherto fancied that the Audit Commissioners are a check upon the revenue — not what is received, but what ought to be received — it is a mistake?' he replied:

It is a mistake; it is a misconception, and in the very first report I ever wrote under the Audit Act, and from that time up to the present, I have taken care that there shall be no misunderstanding upon that point. Over and over again have I explained the nature and extent of the inspection of the accounts on our annual visits, and pointed out with equal earnestness the necessity for meeting that by internal check in the departments. So there is no excuse for any one to say that they thought the Audit Commissioners were doing so and so, and so and so, for they had the knowledge in their own offices that we did not.¹³

However, there was one issue that could have caused major embarrassment to the Commissioners of Audit but received surprisingly little attention from the committee. On 27 November 1873, Robert Gudemann of the Treasury noted that,

Amongst the papers gathered in O'Ferrall's office there is a considerable number of letters from Robert Carter, of the Audit Office, which bear evidence that this gentleman was or is under considerable pecuniary obligation to O'Ferrall. Some ... refer to official matters in connection with O'Ferrall's returns of licenses to the Audit Office. One cannot tell to what mischief such relation between officials in the relative positions they hold may lead, and it would perhaps be well were you to enquire of the Commissioners of Audit whether the instances under notice have anything suspicious attached to them, or whether they lead them to suspect that O'Ferrall's returns have in any way been tampered with, more particularly so as there is an utter absence of office records which could afford a check on O'Ferrall's returns.

There is also a letter from Mr Gates, in the Audit Office, asking a favor of Mr O'Ferrall; the fact might be worth mentioning to the Commissioners.¹⁴

Hugh O'Ferrall was known for his ostentatious lifestyle. Although his salary was only £300 a year, his wealth did not attract attention as it was believed that he had married well and the properties he owned had been acquired with his wife's money. In spite of this, it is strange that the fact that clerks in the Audit Office owed him money did not attract the

interest of the inquiry. Only one question was asked on the issue and the possible implications were never explored. However, after reading the evidence presented to the inquiry, there is a suspicion at least that O'Ferrall's success in avoiding detection for many years was due, at least in part, to collusion in the Audit Office.

The Commissioners of Audit defended themselves with great success before the Parliamentary committee. The possible links between O'Ferrall and some Audit Office clerks were never explored and in its report the committee of inquiry placed the blame for the frauds unequivocally with the Lands Department and, in particular, Mr Fletcher. The only criticism of the commissioners was that they did not 'make stronger representations' to the Minister for Lands in time to prevent O'Ferrall's escape.¹⁵

Following the O'Ferrall case, Clement Hodgkinson, the Assistant Commissioner for Crown Lands, resigned from the public service and C.H. Fletcher, O'Ferrall's immediate superior, was demoted to the bottom of his grade with a large reduction in his salary. The case led to a complete reform in the methods of revenue collection in the Lands Department and firmly established the principle that government departments had an obligation to maintain an effective internal audit. These measures were successful in preventing further serious defalcations in the Lands Department during the Selection Acts era and increased the security of government revenue in other departments. The case clarified the role of the Audit Office in regard to revenue collections, but it is doubtful if many public servants ever fully understood the distinction between an inspection and an audit.

¹ The classic account of the Selection Acts is J.M. Powell, *The Public Lands of Australia Felix*, Melbourne, 1970. A good brief account is in C.E. Sayers, *David Syme — a life*, Melbourne, 1965, pp. 44–79. Syme was one of the strongest supporters of the Selection Acts.

² *Ninth Annual Report of the Commissioners of Audit*, 1866, p. 73.

³ Report on the Land Selection Branch, 2 December 1865.

⁴ Progress Report from the Select Committee upon the O'Ferrall Frauds, *VPP*, 1874 vol. 1, pp. 18–19. The observant reader may have noticed the alternate spellings 'disorganise/disorganize' in this quotation. This does not indicate inaccurate copying on the part of the present writer, but rather reflects the less structured spelling that persisted until the late nineteenth century. Similarly, the terms Lands Department and Land Department appear to have been used indiscriminately.

⁵ *Seventeenth Annual Report of the Commissioners of Audit*, 1874, pp. 75–6. Note that 'license' was usually spelt with an 's' in the official documents of the period, regardless of whether it was a noun or a verb.

⁶ Papers re O'Ferrall, *VPP*, 1874, vol. 3A.

⁷ *Seventeenth Annual Report of the Commissioners of Audit*, 1874, p. 69.

⁸ Papers re O'Ferrall, pp. 104–5.

⁹ Progress Report from the Select Committee upon the O'Ferrall Frauds, p. 64.

¹⁰ Progress Report from the Select Committee upon the O'Ferrall Frauds, pp. 31–2.

¹¹ Progress Report from the Select Committee upon the O’Ferrall Frauds, p. 19.

¹² Progress Report from the Select Committee upon the O’Ferrall Frauds, p. 46.

¹³ Progress Report from the Select Committee upon the O’Ferrall Frauds, p. 48.

¹⁴ R. Gudemann to Assistant Commissioner for Crown Lands, 27 November 1873; quoted in Papers re O’Ferrall, p. 93.

¹⁵ Progress Report from the Select Committee upon the O’Ferrall Frauds, pp. iii–v.

7

The Audit Office and the constitutional crises of 1865 and 1878

Within two months of taking office in 1857 under the new Audit Act, the Commissioners of Audit raised an important query with the Solicitor-General, Thomas Fellows:

The Audit Act ... provides ... that no moneys shall be issued from the Treasury until the Commissioners of Audit, or two of them, shall have countersigned a warrant addressed to the Treasurer.

Before signing the warrant, the Commissioners are to ascertain that the sums included in it are legally available for, and applicable to, the service or purpose mentioned; they cannot sign unless such be the case; and without their signatures the moneys may not be issued.

No moneys therefore are to be issued from the Treasury until the same are legally available.

The question arises, whether the words 'legally available' imply, as would seem to be the case, that the Appropriation Act must have passed both Houses and have become law, or whether, on the ground of custom and precedent, the resolutions of the Assembly, duly agreed to by the House, but without the consent of the other branches of the Legislature, may be considered as making the money 'legally available' for issue.¹

Mr Fellows clearly did not consider the issue serious as his reply was very brief:

I think that resolutions of a Committee of Supply reported to and adopted by the House, make the amount 'legally available.' ... It is moreover in accordance with the practice of the House of Commons.²

The commissioners felt that this answer had sufficient authority to allow them to continue to sign warrants for payments on the basis of a vote of the Assembly, but they were far from satisfied. While they hesitated to say that the House of Commons was acting illegally, the commissioners clearly did not believe that the precedent of an English custom necessarily had the force of law in Victoria. Further they pointed out that there were several important differences between the appropriation procedures in England and Victoria. These differences were analysed in a detailed memorandum by Alfred Agg, written in Ararat while on a tour of inspection in September 1858. Agg concluded, 'With a knowledge of these facts, I do not see how a vote of the Committee of Supply (or anything short of an Act of Parliament) can of itself be sufficient to make money legally available for issue from the Treasury.'³

Although the Audit Commissioners raised the issue of when money became legally available on many occasions before 1865, no government was interested in taking action to clarify the situation. The various Treasurers, Treasury officials and government law officers, when pressed, argued that the Commissioners of Audit must continue to authorise payments on the vote of the Assembly, because, as H.S. Chapman, Attorney-General in the first two O'Shanassy ministries, put it, 'The greatest inconvenience to the public service and even a fatal disturbance to the public credit might be the consequence of any other course.'⁴

With this warning in mind, the commissioners continued to sign warrants on the vote of the Assembly, but they were never fully satisfied that they were acting properly. This was of no great importance until 1865 as the issue was of no political importance and the passing of the Appropriation Acts had automatically followed the votes of the Assembly. However, in that year the academic debate over the issue of when money became legally available suddenly became a central issue of political debate and faced the Commissioners of Audit with the greatest challenge they ever encountered. The Audit Office was at grave risk of becoming embroiled in political controversy and it seemed that whatever course the commissioners chose, they would run the risk of appearing partisan.

While the dismissal of the Whitlam government in 1975 was one of the most dramatic moments in Australian political history it is far less well known that two similar constitutional crises occurred in Victoria in 1865 and 1878, which, at the time, aroused a similarly fierce public debate. In 1975 the crisis was resolved swiftly when the Governor-General, Sir John Kerr, dismissed the government and forced an election following the Senate's refusal of supply. As the opposition won decisive majorities in both houses, the crisis speedily came to an end, even if the public debate on the issues continued. By contrast, although the Victorian political deadlocks of 1865 and 1878 began with the blocking of supply by the Legislative Council, subsequent elections returned basically unchanged parliaments, resulting in the conflicts continuing for several years.

As the constitutional crises dragged on, the ministries of the day resorted to some unusual arrangements to finance the continued operations of government. This inevitably dragged the Commissioners of Audit into political debate. The opposition demanded that the commissioners condemn the government's unorthodox money raising methods and refuse to certify the Treasury accounts, while the government claimed that this would be an improper interference in the political process and would bring the business of government to a halt, causing great hardship. On both occasions the Audit Office faced great danger of appearing to be partisan and the commissioners had to walk a very fine line to maintain the integrity of the office under intense pressure from both sides of politics.

In October 1864 a general election returned the Premier, James McCulloch, at the head of a government committed to introducing a protectionist tariff. Although the government had a substantial majority in the Legislative Assembly, the Legislative Council was dominated by free trade squatters and merchants who made it clear that they would reject any bill introducing a protectionist tariff. Consequently the government inserted its Tariff Bill as a clause in the Appropriation Bill, since British constitutional precedent and the Victorian Statutes prevented the upper house amending finance bills. The Legislative Council accepted the challenge and, on 25 July 1865, it 'laid aside' the Appropriation Bill. The results were serious and immediate. The wages and salaries of public servants were suspended on 28 July and public business came to a halt as the government had no authority to pay out money. Further, the legal status of revenue from customs duties (at that time one of the main sources of government revenue) immediately came into question. The Customs Department had been collecting duties under the new tariff since the bill passed the Assembly and importers immediately began legal proceedings against the government for their recovery, while the legality of future customs collections remained in doubt.

Rather than submit to the veto of the Legislative Council, the government looked for alternative means to continue financing public services. Initially it approached the six leading banks for loans. Five refused, but the London Chartered Bank (of which the Premier coincidentally happened to be a director!) agreed to a complex and highly questionable system of funding the government. Under the *Crown Remedies Act 1858*, it was legal to pay out of the consolidated revenue any judgements for damages and costs against the Crown made by a court. The government therefore borrowed £40,000 from the bank and used the cash to pay public servants, interest on loans, government contracts and other urgent bills. The bank then issued a writ for the recovery of the loan. The government admitted liability for the debt and was able to repay the bank out of the consolidated revenue. This procedure was repeated twenty-two times enabling the public service to keep functioning through late 1865 and early 1866. The process was able to work because government revenue was still being collected so that the Treasury had ample funds and this method enabled money to be paid out without parliamentary approval.

For the government's arrangement with the London Chartered Bank to work, it required the compliance of the Governor and the Commissioners of Audit in signing the warrants for payment of the debts to the bank. The Governor, Sir Charles Darling, agreed to sign the

warrants, rationalising his position by arguing, ‘If the legal formalities were not strictly observed at least the functions of government had been maintained and its legal obligations had been honoured.’⁵ This decision was one of the main reasons for Darling’s recall by the British government. The Audit Commissioners also agreed to sign the warrants for payment, but their justification for their actions, made in two special reports to Parliament in September 1865, enabled them to avoid the criticisms that the Governor suffered from the Legislative Council and its supporters. Whereas the Governor was seen as having acted in a partisan manner, the Commissioners of Audit were not. The reasons for this were clarified in an editorial in the *Argus*, one of the strongest opponents of the government’s actions:

Since the Government and the London Chartered Bank began their present ‘little game’, the inquiry has frequently been made — what are the Audit Commissioners about? These gentlemen were supposed to exercise a check upon the improper expenditure of the public money, and it was understood that they had lent their assistance to the fraud now being carried on, and had signed documents enabling it to be carried on, and which were indispensable to its being carried on. The case looked ugly against them. Those who were supposed to be our protectors had apparently become our assailants. It appeared as if the escort of the treasure-chest had made common cause with the bushrangers. The report which the Audit Commissioners have presented to the Assembly, however, quite vindicates them. They seem to have acted with care and discretion, to have carefully considered their legal and official position, to have done what the law demanded of them, and to have expressed in measured language their disapproval of the course that has been taken by the Government.

The position of the Audit Commissioners is a somewhat peculiar one. They are something more than accountants, and have to look a little deeper than to see that balances are correctly carried forward and totals correctly summed up. They have to watch against any kind or irregularity in the expenditure of public money ... but they have nothing whatever to do with the question whether the public money is properly spent. What they have to be satisfied about is that it is spent according to law. They are clearly now quite satisfied as to the illegality of the manner in which public payments are being made, but they found themselves bound by law to certify that the judgement debt was legally payable. It was not their business to inquire into the manner in which the judgement was obtained, or as to its fraudulent and collusive character. They would have exceeded their powers had they attempted to meddle with that matter. Their function is rather to keep official books than official consciences, and due evidence having been put before them that a judgement of the Supreme Court had been obtained, they found, after careful consideration, that they had no right to look behind that judgement ...

At the same time, however, it being the clear intention of the act under which they hold office, that they should keep a general watch over the financial affairs of the country — that their functions should be something more than clerical — that they should be in direct communication with Parliament, and independent of Government — they would have fallen short of their duty if they had assented in silence to what they considered fraudulent, merely because at the precise point at which their co-operation was necessary, the transaction was

legal, and they had no option about giving their signatures. They have, therefore, placed the whole facts quietly and clearly upon record. They wash their hands of the transactions with the London Chartered Bank, except in so far that they find they are bound by law to certify to the fact that a judgment debt is legally payable out of the public funds independently of any appropriation act; and they further consider that, now that money is being loosely and irregularly paid out of a cash credit, unprotected by the forms and ceremonies that attach to operations upon the public account, they are bound to be more careful than ever in auditing accounts before passing them as accurate. The Commissioners say very distinctly that the Treasurer is quite unauthorised by law in devoting the advances made by the bank to making general payments voted by the Assembly. Whatever money he receives on public account he is bound to pay into the public account, but of course it would defeat the purpose of the whole conspiracy, if Mr Verdon were to act according to law in this matter. There would be no desired end gained in obtaining a collusive judgement if the money got at in this way were to be immediately put out of reach again. You might as well expect some one who had stolen a ten pound note to drop it into a pillar post-office.⁶

To put it more succinctly than a nineteenth century editorial writer, the Commissioners of Audit agreed that legally the government could pay the amounts owing to the London Chartered Bank, and therefore signed the warrants for payment. However, they pointed out that the arrangement was artificial and probably illegal and that the Treasury had misused the loans from the bank. The commissioners refused to give acquittances to the Treasury for all moneys paid out of the bank loans and surcharged the full amounts paid out until the legal appropriations were made many months later.⁷ The supporters of the government were satisfied that the commissioners had signed the warrants required for the scheme to function, while, as the *Argus* made clear, the opposition was mollified by the strong reservations the commissioners expressed over the government's actions.

In November 1865, the government sent the Tariff Bill to the Legislative Council as a separate measure, but it was again rejected. Consequently, in an attempt to break the continued deadlock, the Governor dissolved Parliament, but the ensuing election returned the McCulloch government with an increased majority in the Assembly, while the free trade majority remained entrenched in the Council. Following a further rejection of the Tariff Bill, the government resigned, but as the opposition was unable to form a ministry, McCulloch returned to office. It was not until April 1866 that a conference between the two houses led to the acceptance by the Council of a modified Tariff Bill and Appropriation Bills for 1865 and 1866.

However, although the immediate crisis was over, the conflict between the two houses soon flared again. Following a petition from the Legislative Council and its supporters, the British government dismissed Sir Charles Darling for his actions during the crisis. The Legislative Assembly responded by passing a bill granting an honorarium of £20,000 to Lady Darling as a gesture of appreciation for the actions of her husband. The Council rejected the bill and another lengthy deadlock followed, which was not resolved until September 1868 when a further dissolution and a change of government in England forced

the Legislative Council to accept a bill greatly widening the franchise for Council elections and lowering the property qualifications for members.

The second period of crisis confronted the Commissioners of Audit with many challenges to their non-partisan position. In their 1869 report the commissioners reflected on their role in the years of crisis:

It was our constant desire and aim to be watchful for the public interests so far as they were likely to be affected by circumstances which came properly within our province to notice. Even when the emergencies of the time led to the adoption of exceptional and extraordinary expedients for carrying on the public business, and for satisfying the more pressing claims on the Treasury, we still deemed it our imperative duty, whilst refusing to take part in or to participate in the responsibility of their introduction, so far to take cognizance of the plans adopted as to be in a position, should circumstances justify the step, to give timely notice to the Government of any actual or possible fraud or error.⁸

The struggle between the Legislative Assembly and the Legislative Council did not end in 1868, but simmered along, continually threatening to explode into another crisis. Similarly, the issue of when money became 'legally available' for expenditure by the government was not fully resolved and, as the Commissioners of Audit regularly pointed out, would again become a serious political question if another political deadlock occurred.

The almost inevitable clash came after the election of May 1877 returned Graham Berry at the head of a large majority in the Assembly committed to a land tax, restoring payment for members of parliament and other radical reforms.⁹ Although the Legislative Council reluctantly passed the land tax (rather than face the horrifying alternative of income tax), it balked at restoring payment for members. On 20 December 1877 the Legislative Council rejected the Appropriation Bill which included payment for members, launching another political and financial crisis.¹⁰

The Victorian Supreme Court and the British Colonial Secretary had declared unlawful the expedients used by the McCulloch ministry in 1865 to continue without a supply bill, so these were no longer available to the Berry ministry. Even if the government had been able to find a tame bank like the London Chartered, it could not borrow money or allow its creditors to sue for what was owing to them. Consequently Graham Berry chose simpler, but even more confrontational methods. On 8 January 1878 the government dismissed 137 judges, magistrates and senior civil servants as a means to save money until the Legislative Council passed the Appropriation Bill. At the time it was widely assumed that the government had targeted those officials whose political allegiances lay with the conservatives and the Legislative Council, and 'Black Wednesday' was intended to sound a warning that continued opposition to the will of the Assembly would have the most serious

consequences. The Audit Office staff escaped unscathed, perhaps a tribute to their record of non-partisanship, and the issue did not directly concern the Commissioners of Audit.

By contrast, the next step taken by the Berry ministry was of great concern for the commissioners. On 6 February 1878 the Legislative Assembly passed a resolution making all votes or grants passed in the Committee of Supply available for expenditure ‘immediately the resolutions are agreed to by the Assembly’.¹¹ In this way the government attempted to formalise the informal practice the Commissioners of Audit had strongly condemned since 1857. The commissioners and the Governor, Sir George Bowen, were deeply concerned about the legality of this resolution. Sir George wrote to Graham Berry:

It is certain that ... several successive Law Officers in Victoria have given opinions to the effect that Resolutions of a Committee of Supply of the Assembly, duly reported to and adopted by the House, are of themselves sufficient to render grants of public money ‘legally available’ for issue, without waiting for the formal consent of the other branches of the Legislature. It also appears that up to the year 1862, the Commissioners of Audit habitually certified that such grants of public money were ‘legally available’; and that former Governors accordingly signed the usual Treasury Warrants.

But when this question was first brought under the Governor’s consideration in last December, after the ‘laying aside’ by the Legislative Council of the Appropriations Bill for the year, he felt doubts as to the applicability of the legal opinions, referred to above, to the new circumstances of the case. For it was proposed that he should sign warrants not (as was formerly done) on the faith of the passing of the annual Appropriations Bill, but after the laying aside of that Bill.

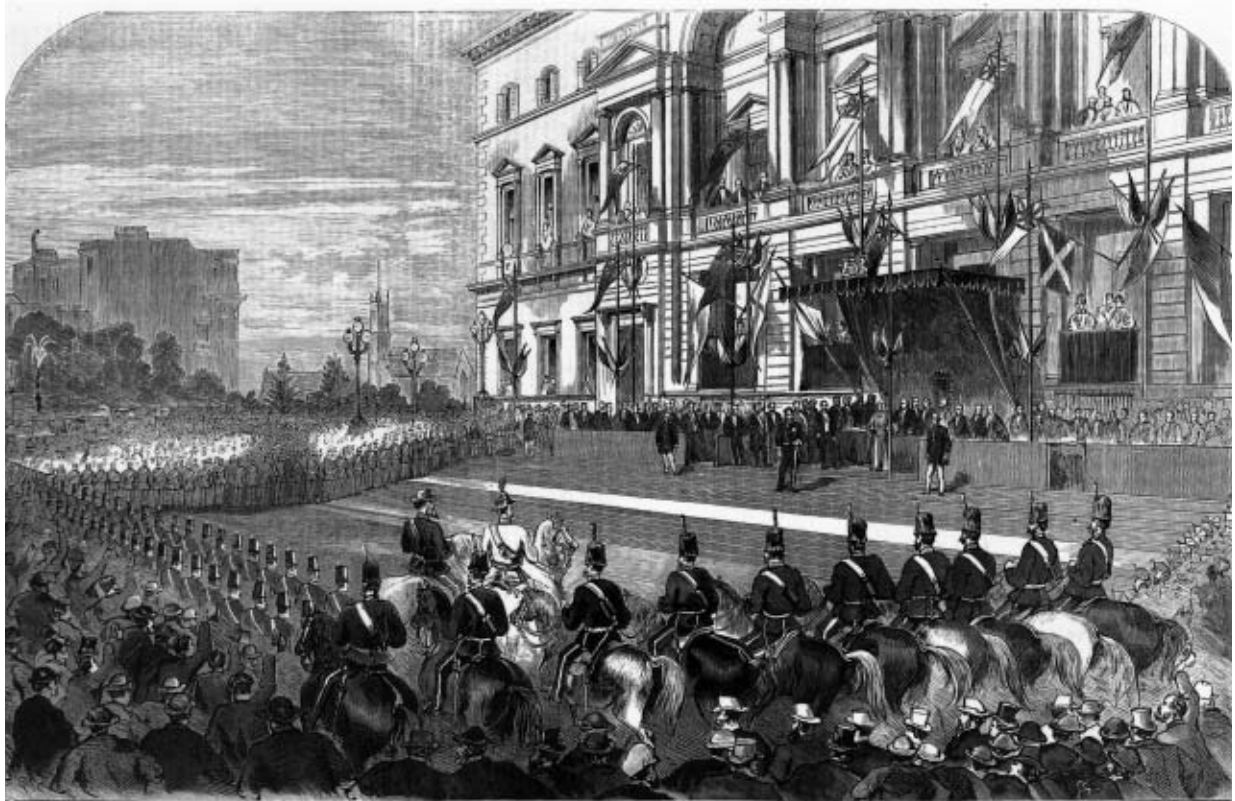
In other words, the precedent that money was ‘legally available’ after the vote of the Assembly presumed that the Appropriation Bill would pass the Council, but in this case it was clear that the bill would **not** pass the Council. The Governor continued that he wished for a legal opinion on the following questions:

- (1) Would it be lawful for the Commissioners of Audit to certify that the public money voted by the Legislative Assembly is now ‘legally available’?
- (2) Would it consequently be lawful for the Governor, on such certificates of the Commissioners of Audit, and on the advice and responsibility of Ministers, to sign the usual Warrants for the issue of such public money?¹²

The Attorney-General, Robert Le Poer Trench, had no doubts on the issue. Basing his case on a tortuous interpretation of section 45 of the Constitution Act, he argued:

I am of opinion that it will not only be lawful but a duty contemplated by [the Constitution Act] for the Commissioners of Audit to certify that the public money is legally available for the purposes enunciated in the section under consideration and that it will be lawful for the Governor to sign the usual warrants for its issue.¹³

Sir George accepted this advice and chose to sign the warrants for payment. Somewhat surprisingly, in view of their earlier strong views on the issue of when money became ‘legally available’, Charles Symonds and Alfred Agg (Francis Jones was in England) followed the Governor’s example and also signed the warrants. However, as in the previous constitutional crisis, the commissioners succeeded in justifying their actions in a way that avoided dragging the Audit Office into the political controversy. While satisfying the government and its supporters by signing the warrants, the commissioners still received the endorsement of the *Argus*, the mouthpiece of the opposition.



*Sir George Bowen sworn in as Governor on the steps of the Treasury Building,
Illustrated Australian News, 22 April 1873.
(La Trobe Picture Collection, State Library of Victoria.)*

The Commissioners of Audit stated that they felt constrained to sign the warrants as this was the advice of the crown law officers. However, they expressed strong reservations that the use of section 45 of the Constitution Act to make special appropriations was improper and would prove to be unworkable. Their statements led the *Argus* to conclude that ‘it can scarcely be doubted that if the large sums talked of are actually disbursed, the audit commissioners will have, when they come to check the accounts, to report the bulk of the outlay as illegal, as beyond bounds’.¹⁴

Graham Berry and Sir George Bowen attracted all the aroused passions and bitterness of the Legislative Council and its supporters, even receiving serious death threats, but the

Commissioners of Audit escaped attention, in spite of their decision to sign warrants for payment solely on the motion of the Assembly. Nonetheless, they must have been relieved when the Assembly and the Council reached a compromise at the end of March 1878, allowing the Appropriation Bill to pass the upper house.

The constitutional crises of 1865 and 1878 did not ultimately resolve the relations between the two houses of the Victorian Parliament. Although the Legislative Council has rarely interfered with money bills, it rejected the Supply Bill in 1952 and still claims the right to do so under extreme circumstances. Similarly the question of when money becomes ‘legally available’ was never formally resolved. Succeeding governments maintained the policy of spending money on the vote of the Committee of Supply of the Legislative Assembly, and the Commissioners of Audit continued to sign the warrants for payment, while occasionally expressing their reservations. In 1902, a new Auditor-General raised a query with the Crown Solicitor in almost identical terms to those used by the Commissioners of Audit in 1857, and received an almost identical reply:

Will the Crown Solicitor kindly give his opinion on the following points:

Under the provisions of the Audit Act 1890 54 Vict 1066 (Secretary 28) a Warrant has to be prepared by the Treasury for the countersignature of the Auditor-General, but before countersigning (Secretary 29) the Auditor-General has to ascertain ‘that the sums therein mentioned are then legally available’.

The practice of my predecessors has been to sign Warrants on the authority of the Appropriation Act in anticipation of the money being available when required.

1. Is the Auditor-General justified in certifying that an amount is legally available which has not been raised or paid into the Public Account?
2. May the proceeds of a Loan Act be deemed to be legally available when advice has not been received that the money has been placed to the credit of the Public Account?

The Crown Solicitor advised that, although the Act made it sound as if the money should actually be in hand, ‘having regard to the length of the practice to regard the requirement as satisfied with the authority of the act of the Legislature authorising the payment as justifying payment when the money comes to hand, I think the Auditor-General may safely conform to the practice of his predecessors’.¹⁵

Although the constitutional crises did not resolve these major issues, the Commissioners of Audit emerged at the end of the 1870s with an enhanced reputation. On both occasions they were in grave danger of becoming embroiled in political controversy, but skilfully managed to avoid the danger and carry out their duties with the approval of both parties.

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- ¹ Commissioners of Audit to Thomas Fellows, 18 December 1857, in *Second Annual Report of the Commissioners of Audit*, 1859, p. 47. A warrant is an official authorisation for payment of money by the Treasurer.
- ² Thomas Fellows to Commissioners of Audit, 11 January 1858, in *Second Annual Report of the Commissioners of Audit*, 1859, p. 47.
- ³ These differences were analysed in a detailed memorandum by Alfred Agg, 9 September 1858, in *Second Annual Report of the Commissioners of Audit*, 1859, pp. 49–50.
- ⁴ H.S. Chapman to the Commissioners of Audit, 4 June 1858, in *Second Annual Report of the Commissioners of Audit*, 1859, p. 48.
- ⁵ Quoted in Davis McCaughey, et al, *Victoria's Colonial Governors, 1839–1900*, Melbourne, 1993, p. 115.
- ⁶ *Argus*, 22 September 1865.
- ⁷ The reasoning behind the commissioners response to the Government's arrangement with the London Chartered Bank was set out in two Special Reports from the Commissioners of Audit to the Legislative Assembly, dated 26 September and 10 October 1865, *VPP*, 1864–65.
- ⁸ *Twelfth Annual Report of the Commissioners of Audit*, 1869, p.79.
- ⁹ Payment of £300 p.a. for members had been introduced in 1870 for a period of three years. It was renewed in 1874, but lapsed in 1877.
- ¹⁰ For general accounts of the crisis of 1878, see McCaughey, *Victoria's Colonial Governors*, pp. 169–87; Sayers, *David Syme*, pp. 122–9; Turner, *A History of the Colony of Victoria*, vol. 2, pp. 192–203. For a succinct analysis of the constitutional issues see, Zelman Cowen, 'Historical Survey of the Constitution', in *One Hundred Years of Responsible Government in Victoria, 1856–1956*, Melbourne, 1956, pp. 146–7.
- ¹¹ *P.D.*, vol. 27, p. 2045, 6 February 1878.
- ¹² Sir George Bowen to the Chief Secretary (Graham Berry), 28 February 1878, PRO VPRS 1226, box 82.
- ¹³ Attorney-General to Sir George Bowen, 11 March 1878, PRO VPRS 1226, box 82.
- ¹⁴ *Argus*, 13 March 1878.
- ¹⁵ Auditor-General to Crown Solicitor, Crown Solicitor to Auditor-General, 22 December 1902, PRO VPRS 2028, Register of Legal Opinions, 1890–1937.
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‘Ornamental men’, the Commissioners of Audit, 1883-1901

The twenty-five years after the Audit Act of 1857 had been a period of great stability in the work of the Audit Office. Charles Symonds, Alfred Agg and Francis Jones had the experience and ability to maintain the position of the office through challenges such as the constitutional crises of 1865 and 1878 and the O’Ferrall frauds. They were widely respected and their authority in the field of government auditing was rarely questioned and never challenged. However, with their departure, the situation changed greatly. Francis Jones took leave of absence in 1876 and formally retired in 1885 when the matter of pensions for the Audit Commissioners was resolved; Alfred Agg was appointed a Railways Commissioner in 1883 and Charles Symonds retired in 1886. In contrast to these three commissioners, who had been career auditors with a deep knowledge of their role, the new commissioners appointed in the 1880s and 1890s were senior public servants approaching retirement. While they were all experienced administrators, none had training in accountancy or experience of auditing and their appointments were generally seen as rewards for long service. They were all nearing normal retirement age when they became Audit Commissioners, leading to a far more rapid turnover of commissioners, with a consequent loss of continuity in the work of the office.

The period of instability in the Audit Office coincided with the extravagant economic boom of the 1880s and the disastrous depression of the 1890s. The boom was accompanied by widespread corruption, lax accounting procedures in both the public and private sectors, massive government borrowings and spiralling government expenditure, while the depression saw large budget deficits, sharp cutbacks in the public service, and high unemployment. All these combined to present challenges to the Audit Office and, with the benefit of hindsight, it is clear that the office failed to meet these challenges. During the

period 1883–1901 the Commissioners of Audit took a very narrow view of their responsibilities and their reports show that they were obsessed with the minutiae of the government accounts and almost completely ignored the massive corruption, extravagance and waste of the era. These failings were noted at the time, leading to strident criticism of the Audit Commissioners in Parliament and the press and ultimately to the *Audit Act Amendment Act 1901*, restructuring the office and replacing the three commissioners with a single Auditor-General.

The difficulties faced by the Audit Office in the 1880s were compounded by the reluctance of various administrations to replace retired commissioners. As Francis Jones was still officially a commissioner while on sick leave from 1876 until 1885, the government argued that it could not appoint a new commissioner because the Audit Act specified that there were to be only three commissioners. When Alfred Agg left the Audit Office to become a Railways Commissioner in 1883, the government appointed T. W. Jackson as a temporary commissioner, but it was not until the end of 1885 that his appointment was made permanent. Charles Symonds retired in March 1886 and it was almost a year before the government appointed J. W. Fosbery to replace him. In April 1890 Arthur Morrah became the third Commissioner of Audit, after fourteen years in which there had not been more than two active commissioners. Although several Members of Parliament noted that the Audit Office seemed to function effectively with only two commissioners,¹ in fact it put enormous pressure on the commissioners since the Audit Act stipulated that the accounts of all government officials had to be inspected personally by one of the commissioners. The inspection of all the country accounts took one commissioner virtually an entire year to complete, so this meant that the other commissioner had to inspect the accounts in Melbourne, oversee the audit of the Treasury accounts and supervise the work of the office.

THE LATER COMMISSIONERS OF AUDIT

T. W. Jackson was born in about 1838 and joined the public service in 1853. He worked in the post office, receiving regular promotions until he attained the rank of Deputy Postmaster-General, the senior civil servant in the department. The rest of his life is a mystery.

John Fosbery was born in about 1839. Like Jackson, he was a career public servant, joining the Crown Law Department as a clerk in 1854. He rose through the ranks to become chief clerk in the office of the Master in Equity and Lunacy in 1885. In that position, he ‘rendered services to the State that were appreciated by the ablest lawyers who had ever filled the positions of Attorney-General and Solicitor-General, and by the Judges of the colony’.² Fosbery retired in July 1901 and died in Melbourne in 1911.

Arthur Morrah was born in Clapham in south London in 1833 and came to Australia immediately following his marriage at the age of twenty in 1853. Possibly he was attracted by the prospect of making a fortune on the goldfields, but he had the natural caution of the civil servant and he soon accepted a position as clerk in the Survey

Department. Morrah proved an efficient and capable official and served successively as accountant, chief clerk and inspector of lands, before being appointed Secretary of the Lands Department in 1878. Ironically, following the O'Ferrall frauds in the Lands Department, Morrah fought hard to protect his department from the criticisms of the Audit Commissioners and he succeeded in emerging from the scandal with his own reputation unblemished. In 1889 he served on a board of inquiry into defalcations in the Registrar-General's office, which criticised the Audit Office for its failure to detect the frauds earlier. He was soon given the opportunity to do better, serving as a Commissioner of Audit from April 1890 until the restructure of the Audit Office in January 1902 when he retired. He died in July 1909.

Thomas Wilson was born in 1834 at Wicklow in Ireland, migrating to Victoria in 1852. He soon obtained a position as clerk to the Commissioner for Crown Lands in the County of Bourke, receiving a promotion and moving to the Medical Department in 1855 as chief clerk. He became Secretary of the Board of Health in 1865, holding this position until his appointment as Under-Secretary in the Chief Secretary's Department in 1881. This was the senior position in the Victorian public service and Wilson filled it with distinction for thirteen years. As under-secretary, Wilson had responsibility for the Audit Office as the office was then part of the Chief Secretary's Department, and he defended the office strongly against any attacks. He was appointed a Commissioner of Audit soon after his sixtieth birthday in 1894, but died in office in June 1895. The *Weekly Times* reported: 'The immediate cause of death was acute pneumonia, brought on, in the first place, by too great a desire to attend to official duties while in a delicate state of health.'³



Thomas Wilson, Commissioner of Audit, 1894-95.

Alfred Howitt, Thomas Wilson's successor as Audit Commissioner, was the most distinguished person to hold the position and the one we know the most about, but, conversely, he was the oldest commissioner appointed and probably the least suited or qualified to be an auditor. Howitt was born in 1830 at Nottingham, England, where his father was a chemist, and educated in England and Germany. Howitt was a self-taught scientist and became knowledgeable in chemistry, geology, botany, entomology and other sciences. In 1852 the Howitt family came to Australia to try its luck on the goldfields, and Alfred chose to stay when his parents returned to England in 1854 as he loved the bush. He worked as a farmer, station hand, station manager and a drover, becoming a skilled and experienced bushman. In 1859 he led an expedition to examine the pastoral potential of the Lake Eyre region of South Australia and the following year guided a government prospecting expedition through the mountains of East Gippsland. Following the disappearance of the Burke and Wills expedition in 1861, Howitt led two rescue expeditions to the Coopers Creek region that resulted in the rescue of King, the sole survivor, and the recovery of the remains of Burke and Wills.

As a reward for this success, in 1863 Howitt was appointed police magistrate and warden of the Omeo goldfields and this area of Victoria became the base for his scientific work. He travelled widely in his work, reading in the saddle and closely observing the scenery. Described as 'of short and wiry build and notably calm and self-possessed', he had inexhaustible stamina and enjoyed extraordinarily good health all his life.

His first great interest was in geology and he made many discoveries in Gippsland utilising techniques of scientific analysis new to Australia. He also drew magnificent geological maps of Gippsland that remained in use for many years. He then turned more to botany and his book, *Eucalypts of Gippsland*, became a standard authority. Howitt was one of the first to note eucalypt dieback, soil degradation and other consequences of western farming methods. However, his greatest scientific achievements were in anthropology, where he became probably the leading western authority on Aboriginal societies. Howitt was a good friend of the Aborigines of Gippsland and became an initiated member of the Kurnai tribe. He published an enormous number of scientific papers on all aspects of Aboriginal life, in which he developed many important concepts of modern anthropology, and his work is still of great value to scholars.

It is an indication of Howitt's amazing energy that his scientific contributions were made in his spare time, while he pursued a successful career as a public servant. He served as magistrate in the Omeo district until 1889 and during this period was a member of several royal commissions and other inquiries into mining and related subjects. In 1889 he was appointed acting secretary of the Department of Mines, becoming secretary in 1892. After his service as a Commissioner of Audit from 1895 to 1901, Howitt spent his final years in scientific research, publishing one of his best known works, *The Native Tribes of South-East Australia*, in 1904 at the age of seventy-four.



Alfred Howitt, Commissioner of Audit, 1895-1901.

Alfred Howitt received many awards for his scientific achievements, including fellowships of many learned societies and an honorary doctorate in science from Cambridge University. After his death in 1908 he was described as ‘The most distinguished scientist in Australia ... a man of simple and noble character, whose one aim was a ceaseless and tireless search for truth.’⁴

The last Commissioner of Audit to be appointed, Charles Topp, was born in Huddersfield in Yorkshire, England, in 1847. He arrived in Melbourne with his family in 1858 and was educated at Melbourne Grammar School and the University of Melbourne, where he graduated with degrees in Arts and Law in 1869. In that year he was appointed an assistant inspector of schools, beginning a lengthy career in the Education Department bureaucracy. In 1884 Topp became principal of the Teachers’ Training College, supervising the move to the ornate red-brick buildings at the corner of Grattan and Swanston Streets in 1889. Shortly after he accepted the new position of chairman of the Board of Public Health, which he held for five years before he succeeded T.R. Wilson as Under-Secretary of the Chief Secretary’s Department when Wilson became an Audit Commissioner. On the retirement of J.W. Fosbery in July 1901, Topp was appointed a Public Service Commissioner and Audit Commissioner. He was an Audit Commissioner for six months before the abolition of the office with the new Audit Act, but he remained as the sole Public Service Commissioner until his retirement in 1908.

Charles Topp was active in university affairs, being Warden of the Senate and a member of the University Council. A keen amateur naturalist, he was elected a fellow of the Linnaean Society and served as president of the Field Naturalists' Club. He died in 1932.⁵



Charles Topp, Commissioner of Audit, 1901-02.

Until the 1880s the staff of the Audit Office, as with all branches of the public service, was recruited largely through patronage, with members of parliament, government ministers and other men of influence being able to find jobs for friends, relations and constituents. That the Audit Office was susceptible to appointment by patronage is indicated by the employment of the son and nephew of Charles Symonds, the senior Audit Commissioner. The patronage system came to an end with the passing of the *Public Service Act 1883*. This act established a system of entrance by competitive examination, job classification and promotion primarily through seniority, controlled by the Public Service Board, which lasted with little change for over a century. Although it took some years to weed out the drones who had infested the public service under the patronage system, by 1900 there had been a noticeable improvement in the quality of staff in all departments, including the Audit Office.

As the Victorian economy grew and the role of government expanded, the staff of the Audit Office slowly increased (but far less rapidly than the public service as a whole). In 1883 the office had twenty-three staff and this rose to twenty-eight by 1890 (the public service as a whole grew from about 6000 to 32,000 over the same period). However, the depression of the 1890s led to a freeze on new appointments and the staff remained at the level of 1890 until the early years of the following decade.

Edward Symonds was the senior clerk in the Audit Office from 1876 until 1888 when he became comptroller of the money order and savings bank branches of the Victorian Post Office. We know nothing of his personality, but, as he had been with the office since he joined at the age of thirteen in 1852, was the nephew of Audit Commissioner Charles Symonds, and the son of the Under-Treasurer, his authority in the office must have been very high. Following Edward Symonds' promotion in 1888, Charles Petley became senior clerk. Petley was born in 1832 and joined the Audit Office in 1857, gradually working his way up to the top of the seniority list. Other staff who were with the office throughout the 1883–1900 era included Archie Whitby, Edward Wood, Frank Symonds, W. C. Tope, H. E. Macdowell, and John Carroll. There appear to have been few transfers between departments, except at the highest levels of the service. Apart from the commissioners, the only senior appointment from outside the office was that of J. J. Blundell, who came from the Lands Department to be senior clerk in the revenue section of the Audit Office in 1889.

One of the innovations of the new Audit Commissioners in the late 1880s was to formally divide the office into three branches: expenditure, revenue and special accounts. In 1890 the expenditure section had sixteen clerks, the revenue section had ten clerks, and two were allocated to special accounts. The full list of staff for that year shows the allocation of duties and the main areas of concentration in the work of the office:

AUDIT OFFICE STAFF, 1890

<i>Name</i>	<i>First appointed</i>	<i>Salary</i>	<i>Duties</i>
EXPENDITURE BRANCH			
Petley, C.P	1857	£600	Has charge of office during absence of commissioners; has supervision over and direction of all work in expenditure branch.
Whitby, A.C.	1868	£485	Examines expenditure accounts of Railway Department; examines all contracts and engineers' certificates.
Macdowell, H.E.	1874	£350	Examines contingent expenditure accounts of Chief Secretary's Department (except Police), grants to mechanics institutes &c.
Allan, R.	1868	£325	Examines expenditure accounts of Post Office Department
Carroll, J.	1877	£250	Keeps account of all loans, summaries of expenditure of same and advances and remittances accounts; also examines contingent expenditure accounts of Treasury, Attorney-General's, Solicitor-General's and Defence Departments.
Symonds, F.A.	1876	£220	Examines contingent expenditure accounts of Trade and Customs, and Mines Departments, loans to local bodies, water supply, &c.

AUDIT OFFICE STAFF, 1890 - continued

<i>Name</i>	<i>First appointed</i>	<i>Salary</i>	<i>Duties</i>
EXPENDITURE BRANCH - continued			
Tope, W.C.	1878	£220	Examines accounts relating to special funds e.g. Customs drawbacks, intestate and suitors moneys, &c.; also those of Lands and Survey Department.
Slade, A.C.	1876	£210	Examines Public Works, Agricultural and Police Departments expenditure accounts; also registers powers of attorney.
Dunn, H.J.	1875	£200	Assists in preparing daily certificates under 34th section of Audit Act; copies queries, &c, &c.
Mitchell, J.	1884	£163	Assists in examination of Treasury and other Departmental accounts; also distributes vouchers to Examiners.
Hill, A.F.	1884	£163	Assists in examination of Railway accounts.
Lee, J.R.	1883	£160	Registers Railway contingent accounts.
Anderson, R.	1887	£90	Assists in examination of Railway accounts.
Pescott, J.	1888	£80	Assists in examination of Railway accounts.
Robinson, J.	1888	£90	Assists generally and in charge of current vouchers
Kennedy, P.	1889	£70	On probation; assists generally.
REVENUE BRANCH			
Blundell, J.J.	1867	£520	Has supervision over and direction of all work in Revenue Branch.
Wood, E.	1856	£485	Registers names of collectors of imposts; examines and reports on Revenue accounts.
Spear, F.W.	1874	£255	Conducts business relating to registration of land and mining rents &c.
Bryant, W.J.	1874	£210	Keeps account of special funds, Revenue funds &c.
Tuckwell, F.	1873	£200	Assists in examination of Revenue accounts, including land sale reports, and also effects all registration in connection therewith.
Walker, J.	1881	£200	Copies and despatches queries and assists generally.
Kerrigan, J.T.	1884	£140	Assists in checking and registering land and mining rents.
Wheelens, W.	1888	£90	Checks computations of Revenue vouchers.
Ingrams, J.C.	1888	£50	Assists in checking and registering land and mining rents.
Varcoe, J.S.	1888	£50	Assists in checking and registering land and mining rents.

AUDIT OFFICE STAFF, 1890 - continued

<i>Name</i>	<i>First appointed</i>	<i>Salary</i>	<i>Duties</i>
<i>SPECIAL BRANCH</i>			
Gates, A	1863	£485	Examines various accounts, viz: — Harbour Trust, Agent-General's, Loan Agents &c; keeps stock ledger and account of warrants issued against loans, votes &c.
Fleming, A.	1866	£325	Examines debenture coupons paid in London; assists in examination of daily bank sheets &c.

There are few surviving details of the work of the Audit Office from this era. One of a handful of reports was made by the Public Service Board following a review of the various offices of the Chief Secretary's Department in December 1892. The report noted:

In the Audit Office the officers appeared to be fully engaged. During the illness of Mr Petley, the late Chief Clerk, and since his retirement, the duties which were previously performed by him have been distributed and undertaken by Messrs. Wood and Whitby; the former, an officer of the second class, is in charge of the Revenue, and the latter of the Expenditure Branch; the work devolving upon the former is said to necessitate his attendance at the office until 9 p.m. four nights in every week. It is not suggested that the work can be avoided under the existing system of keeping the accounts; but the Board would advise that some arrangement be made by which Mr Wood can be relieved from such continuous overtime attendance at the office.⁶

However, by this time Victoria was in the grip of economic depression and T.R. Wilson, the Under-Secretary in the Chief Secretary's Department decided that Mr Petley would not be replaced and that it was up to the Audit Commissioners to reorganise their office to relieve Edward Wood of some of his workload. There is no comment on Wood's own views — it is possible that he was used to hard work as he had apparently joined the public service in 1856 at the age of twelve!⁷

One of the continuing themes of the Audit Office has been the problem of dealing with the vast number of documents sent to the office for checking and storage. In 1892 the commissioners reported that the problem was getting out of hand:

Since the establishment of the Audit Office in 1857, it has been the practice to keep arranged in order all the vouchers and accounts of every kind that have passed under examination from day to day, with a view to the possibility of their being required for reference at a subsequent period. As a result, there is now so large and growing an accumulation of these old documents as almost to necessitate extra space for their storage.⁸

The commissioners asked for authority to destroy vouchers, cancelled debentures and other documents more than ten years old. Although permission was given, storage remained a problem, with old vouchers eventually taking up much of the space in the basement of the Treasury building originally designed to store gold.



*Relaxing at the staff picnic, early 1890s.
Tom Horan is standing left of centre wearing a hat and holding a pipe.*

As part of extensive cuts in government expenditure in the mid-1890s, the Commissioners of Audit were given the extra responsibility of running the Public Service Board. The commissioners were all formerly senior public servants so they were familiar with the duties involved and readily accepted their additional responsibilities. In fact the duties of the Public Service Board for the next few years were minimal as public service recruitment and promotions were frozen during the financial crisis. However, in order to ensure that the commissioners were able to perform their dual functions, the government introduced an important amendment to the Audit Act. Previously the accounts of all government offices throughout Victoria had to be personally inspected by one of the Audit Commissioners, but the amendment allowed senior staff of the Audit Office, to be known as ‘examiners’, to undertake the inspection work out of the City of Melbourne. Country inspections became a central feature of the working lives of many Audit Office staff and over the next eighty years they came to form a large part of the mythology of the office.

The amendment to the Audit Act in September 1893 gave an interesting example of legislation being improved as the result of parliamentary debate. Originally the amendment proposed that the inspections should be undertaken by officers appointed by the relevant departments, but several speakers pointed out the dangers that this would involve, as it would effectively remove many accounts from any external audit. As William Shiels argued, ‘there should be a formal authentic audit by the Audit Commissioners or their own officer —

not mixed up with the departmental audit, but a separate audit'.⁹ After debate this was accepted by the government and the principle of separate internal and external audits was reaffirmed.

The period 1883–1901 saw the most dramatic boom and bust in the history of Victoria. The economic prosperity of the 1880s was based on good seasons, high prices for primary products, mining expansion and the growth of local manufacturing, but the prosperity was turned into a boom by massive railway construction and rapidly rising government expenditure primarily financed by large loans raised in London. The boom peaked in 1889 when land prices, particularly in the outer suburbs of Melbourne, reached astronomical levels, and the share market reached record highs fuelled by speculation in mining stocks. Throughout the colony speculators subdivided land and lobbied, usually successfully, for railway lines to service their subdivisions (some of which remain desolate and empty paddocks even today). In the early 1890s the bubble burst — land and share prices fell sharply, building societies folded, and, in 1893, almost every bank in Victoria closed its doors, some permanently. The colony entered into a depression matched only by that of the 1930s, with high unemployment, a fall of thirty-five per cent in government revenue, and sixteen consecutive years beginning in 1891 in which Victoria had more emigrants than immigrants.¹⁰

The boom of the 1880s was accompanied, in both the public and private sectors, with widespread corruption, dubious accounting practices and wild extravagance. The decline in standards at government level began during the ministry of Sir Bryan O'Loughlen, when the state's finances 'drifted into a chaotic condition, involving the constant borrowing of trust funds and the incurring of heavy obligations in anticipation of the floating of loans'.¹¹ During the decade, the public debt more than doubled from £20 million to £42 million, but 'Much of the money being borrowed by the State was finally flowing into the pockets of the land profiteers, many of them actually being members of the governments which were floating the huge loans.' Michael Cannon described Parliament during the 1880s as being little more than a 'land speculators' club', with the continual use of political power for private gain, and showed that the shape of the major extensions to the railway network during the decade was largely determined by the land interests of Members of Parliament.¹² The most notorious landboomer, Sir Matthew Davies, was Speaker of the Legislative Assembly from 1887 to 1892 and he was succeeded by Thomas Bent, who was described by Alfred Deakin as, 'the most brazen, untrustworthy ... intriguer whom the Victorian Parliament had ever known', with 'an ineradicable tendency to jobbery'.¹³

In the 1980s and 1990s Victoria endured an eerie re-enactment of the events of one hundred years before, with a frenzied boom based around shares and property followed by the inevitable bust, accompanied by bank crashes, dubious government accounting, rising indebtedness and a lengthy depression. During the 1980s and 1990s the Audit Office

constantly alerted Parliament and the public to the major issues of the time, earning the wrath of all governments and becoming itself the subject of intense political debate. However, in the 1880s and 1890s, the ‘watchmen on the tower’ appeared to have left the lens covers on their telescopes. The scandals, corruption, extravagance, reckless borrowing and inventive accounting of the late 1800s went by unnoticed and unreported.

A brief survey of the Audit Commissioners’ reports of the era shows that the commissioners had an obsession with minutiae and largely ignored the major issues. The figures presented in their reports showed the steady increase in the percentage of the budget required to service the public debt from eighteen per cent in 1880 to twenty-seven per cent in 1893, the collapse in government revenue from £10.2 million in 1889–90 to £6.7 million in 1892–93 and the rising budget deficits of the early 1890s, but their reports sounded no note of alarm and gave no warning to Parliament or public. At a time when the Victorian Railways was accumulating millions of pounds worth of material to build lines which had not been authorised by Parliament, the main concern of the Audit Commissioners was that the railways had paid gratuities to the widows of railway workers in contravention of a strict interpretation of the law.¹⁴ Anyone reading the Audit Commissioners’ reports for the critical years between 1889 and 1894, who was not aware of the history of that period, would have no idea of the true position of Victoria’s financial affairs. In their report for 1889–90, the commissioners complained that a warrant for payment was signed by a minister other than the Treasurer when the Treasurer was ‘absent from town for a few days’, but ignored the massive increases in government expenditure in that year, primarily for railways designed solely to benefit speculators. The 1892–93 report comments on the ‘novel and attractive form’ of new debentures, but does not state that they were issued to cover the enormous budget deficit of that year.

In the long era of Commissioners Symonds, Agg and Jones, the Audit Office was virtually immune from public criticism, but from the early 1890s, the commissioners suffered from an increasing number of attacks in Parliament and the press. The first blast came from the *Age*, the dominant opinion-maker of the time. On 5 July 1892 the *Age* published a lengthy editorial criticising the theory and practice of the Commissioners of Audit:

What more, it may be asked, can be required of the Commissioners of Audit than that they shall annually examine the statements, accounts and receipts of the public servants, and certify that they are correct, and that the public moneys have been expended in a legal and authorised way? But it seems as if compliance with forms was all that was required, and the money may go astray without the Commissioners of Audit knowing anything about the matter. It is not so very long ago that an instance occurred in which a public servant was found to have been plundering the revenue for years to a large amount. An efficient audit would have discovered the fraud at any time, and the excuse of the Commissioners was that it was not their duty to question any of the statements laid before them by public officials, who were presumably honourable men! Now the very existence of the Audit Commissioners is due to a doubt of honourable conduct on the part of officers having the control of public money. We have seen the results of this system in the O’Ferrall, Agg and Butler frauds. In all those cases the

Commissioners should have been made *particeps criminis* [accessories to the crime] since the frauds could not have been persistently pursued in the face of an efficient audit. It may as well be understood that no audit is of the slightest use in which the auditors are satisfied with finding that the addition of a column of figures is accurate and that there are vouchers for payments made. The auditors should go behind the vouchers and discover whether the payments were authorised, whether there was a right on the part of those professing to authorise to pay away public money, and lastly, whether the money was paid for the purposes authorised.

The *Age* criticised the auditors for announcing their inspections in advance and for involving the auditee in the audit process and continued:

Somehow we always find the Audit Commissioners in the wrong places doing the wrong work. They are employed to make the O'Ferrall swindles impossible, and they make them easy as may be, while they undertake journeys to the frontiers of the colony to measure the oats in the corn bin of some solitary trooper stationed there.

Finally, the *Age* argued for the establishment of a parliamentary committee of public accounts to force the Audit Commissioners to rethink their activities.

Some of these criticisms were echoed the following year by Alfred Deakin during the debate on the Public Service Act Further Amendment Bill. Deakin asked,

Would anybody say that the official system of keeping the public accounts was at all satisfactory, or that they were audited in a business-like manner? Were the accounts of the railways, or any other trading enterprise of the State, critically examined and annually explained in the interests of the public? Had the members of the Legislative Assembly any real check over the expenditure of the great spending departments of the public service?

Deakin agreed that the Audit Commissioners were 'officials of the purest and best character' but argued that their background was 'purely official' and they had 'no knowledge how commercial affairs were or ought to be managed'. He claimed that 'businessmen ridiculed our system of keeping and auditing public accounts as costly, cumbersome and ineffective to the last degree'. In particular, Deakin condemned the practice of making a copy of the Treasury accounts in the Audit Office as being 'a matter of mere copy-book exercise'.¹⁵

Several weeks later, the Audit Commissioners suffered an even stronger attack in the Legislative Council at the hands of Sir Frederick Sargood, a leading businessman and former minister. Sargood said that he,

had no hesitation in saying that the audit was an utter sham ... It was not an audit in the ordinary commercial sense of the term in the slightest degree ... He wished it to be distinctly understood that he did not desire to reflect upon the commissioners who were highly respected officers of the service [but] at the same time it must be acknowledged that they had not the training requisite for occupying such a position, where it was only right to expect that expert officers should be placed.¹⁶

Traditionally the annual vote for the Audit Office was passed without debate, but in the second half of the 1890s, many members took the opportunity to criticise the Commissioners of Audit. In 1895 George Prendergast, the MLA for North Melbourne, described the commissioners as ‘ornamental men’ appointed to ‘duties which they knew nothing at all about’.¹⁷ The following year the debate on the office vote concentrated on the age of the Audit Commissioners. Mr Prendergast again led the way, arguing that ‘The work should be put in the hands of individuals who were fairly competent to do it, and not into the hands of men who ought to have been out of the service years ago.’ Mr Bromley, MLA for Carlton, interjected, ‘They are all nearly 80 years of age,’ and Mr Murray, MLA for Warrnambool, commented, ‘They all look a good deal more than that.’ Mr Bromley then launched a stinging attack on Alfred Howitt, claiming that as an Audit Commissioner he ‘had been of no service whatever’, while Arthur Morrah and John Fosbery were ‘the most fossilized specimens of the public service’.¹⁸

Ever since the 1870s there had been frequent calls for the establishment of a Committee of Public Accounts to increase parliamentary control over financial affairs. In 1887 Edward Langton, former Treasurer and antagonist of Messrs Symonds, Agg and Jones, while on a visit to England investigated the role of the Committee of Public Accounts in the House of Commons and his report was published as a parliamentary paper in 1891. In his report Langton was highly critical of the methods of the Victorian Audit Office, comparing it most unfavourably with the English system. He was particularly scathing of the practice of making a complete duplicate set of the Treasury accounts, stating, ‘I have never heard of any other instance in which it has been held necessary for auditors themselves to keep and post the books and accounts which they are to audit.’¹⁹ Langton concluded that the Committee of Public Accounts in England was an invaluable part of the system of controlling public expenditure and recommended that the Legislative Assembly should set up a similar committee. Ironically, the Audit Commissioners were also in favour of a Committee of Public Accounts, arguing in several of their reports that this would assist them in explaining matters to Parliament and help ensure that their reports were acted on. A Committee of Public Accounts was eventually set up by a standing order of the Legislative Assembly in December 1894 and the first committee was appointed in June 1895.²⁰

Although the Audit Commissioners welcomed the establishment of the Committee of Public Accounts, the new committee soon began to criticise the Audit Office. Initially the main cause of complaint was the late delivery of the Audit Commissioners’ reports, but by 1900 the committee began to question the competence of some of the Audit Office’s inspectors, who it blamed for the delayed presentation of reports, and argued that ‘the present methods of keeping the public accounts and the system of auditing are open to serious criticism’. The committee queried ‘the present methods pursued in the Audit Office and the qualifications of its staff for conducting the work of auditing’ and recommended that the Commissioners of Audit be replaced by a ‘single financial expert as Auditor-General’.²¹ This was the genesis of the *Audit Act Amendment Act 1901* which re-established the system of having a single Auditor-General, bringing an end to the forty-four year era of the Commissioners of Audit.



Who says auditors can't party? The aftermath of an Audit Office outing near Riddell's Creek, 1898.

¹ For example, Graham Berry in *P.D.*, vol. 28, p. 28, 10 July 1878.

² Mr McLellan, MLA for Ararat, in *P.D.*, vol. 82, p. 1319, 19 August 1896.

³ *Weekly Times*, 6 July 1895.

⁴ Spencer W. Baldwin, 'Obituary', in *Victorian Naturalist*, April 1908, pp.188–9; The two main sources used for this account of the life of Alfred Howitt are, Judy Wardlaw, 'Alfred William Howitt: Scientific Pioneer in Colonial Victoria', *Victorian Historical Journal*, April 1997; and W.E.H. Stanner, 'Alfred William Howitt', *Australian Dictionary of Biography*, vol. 4, pp. 432–5.

⁵ Peter Gill, 'Charles Alfred Topp', *Australian Dictionary of Biography*, vol. 6, pp. 289–90.

⁶ Report of the Public Service Board on the various offices of the Chief Secretary's Department, *VPP*, 1892–3, vol. 1, p. 999.

⁷ There is some uncertainty as to when Wood joined the public service. The civil service lists published in the *Government Gazette* agree that he was born on 6 June 1844, but, while some state that he joined the service on 1 July 1856, others give the date as 16 August 1863.

⁸ *Thirty-sixth Annual Report of the Commissioners of Audit*, 1892, p. 210.

⁹ *P.D.*, vol. 72, p. 1612, 14 September 1893.

- ¹⁰ The boom of the 1880s and the depression of the 1890s have been analysed in three of the classic works of Victorian history: Geoffrey Serle, *The Rush to be Rich*, Melbourne, 1971; Graeme Davison, *The Rise and Fall of Marvellous Melbourne*, Melbourne, 1978; Michael Cannon, *The Landboomers*, Melbourne, 1966.
- ¹¹ Turner, *History of the Colony of Victoria*, vol. 2, p. 247.
- ¹² Cannon, *Landboomers*, pp. 29–30.
- ¹³ Quoted in, Margaret Glass, ‘Thomas Bent: Land Booming Politician’, *Victorian Historical Journal*, vol. 64, no. 2, 1993, p. 143.
- ¹⁴ For example, the *Thirty-sixth Annual Report of the Commissioners of Audit*, presented at the height of the depression in late 1892, devoted considerable attention to the issue of widows’ gratuities, while ignoring the dramatic exposure of corruption and extravagance in the railways revealed in the famous libel case of *Speight v Syme*; see Sayers, *David Syme*, ch. 19.
- ¹⁵ *P.D.*, vol. 72, pp. 1378–9, 5 September 1893. Although the Commissioners of Audit rarely responded to public criticisms, they did reply to this attack. In their *Thirty-seventh Annual Report*, for the financial year 1892–93, they commented:
- We have observed occasional references made to the system adopted in the Audit Office of keeping what has been not quite correctly described as ‘duplicate books,’ or records similar to those also kept in the several Departments; and opinions have been expressed that a preferable course would be that followed in large commercial houses and financial institutions of keeping one set of books, which might be audited at regular intervals. We therefore think it right to explain that no proper comparison can be made between the method of auditing the books and accounts of a mercantile establishment or financial institution and those of the Government. In the latter case the system is determined by the provisions of the Audit Act and regulations framed thereunder by the Governor in Council. In order to comply therewith registers such as are kept at the Audit Office are indispensable — on the one hand, as a check upon the revenue collected; and, on the other, to check the expenditure and surcharge the Treasurer with any payment not authorised by law or incorrect in any particular. To dispense with these registers would necessitate the employment of many additional clerks, entail a large increase of expenditure, make it almost impossible to check the Treasurer’s annual finance statement, and render to a large extent imperfect the present complete and effective system of audit.
- ¹⁶ *P.D.*, vol. 73, pp. 2023–4, 4 October 1893.
- ¹⁷ *P.D.*, vol. 78, p. 2380, 3 October 1895.
- ¹⁸ *P.D.*, vol. 82, p. 1319, 19 August 1896.
- ¹⁹ Report of the Committee of Public Accounts, *VPP*, 1891 vol. 1B.
- ²⁰ Angus Trumble, *Thrift and the Noiseless Step: 100 years of Public Accounts Committees of the Parliament of Victoria*, Melbourne, 1994.
- ²¹ Report of the Committee of Public Accounts, *VPP*, 1899–1900, vol. 2, p. 422.
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9



Federation to war

During the first decade of the twentieth century the work of the Audit Office was substantially reshaped. Following federation several major government departments, notably Customs, Defence and the Post Office, became Commonwealth responsibilities, and many of Victoria's most experienced politicians and public servants moved to the federal sphere. Partly as a result of federation, the Victorian economy recovered strongly after the depression of the 1890s. The ministries of William Irvine and Thomas Bent between 1902 and 1909 were highly interventionist and the State government became involved in a large number of business enterprises, increasingly regulated economic activity and restructured secondary and tertiary education. The State government set up many new government boards, commissions, authorities and industrial enterprises, including the State Rivers and Water Supply Commission, the Country Roads Board, the Closer Settlement Board and the State Coal Mine at Wonthaggi, as well as opening the first government high and technical schools. While the Audit Office might have expected that federation would lessen its workload, by 1914 the number of audits it conducted had grown significantly.

On 19 December 1901 the Premier, Alexander Peacock, moved the second reading of the Audit Act Amendment Bill in the Legislative Assembly. The main change he proposed was to replace the three Commissioners of Audit with a single Auditor-General. The tenure of the Auditor-General was to be 'during good behaviour', and he could be removed or suspended on a vote of both Houses. Peacock stated that:

The position of Auditor-General will be a very important one, and if the Treasurer of the day does not do his duty, the Auditor-General will be able to report the matter to Parliament. He ought to be a first-class officer, and should be placed in such a secure position as to be able to do his duty fearlessly in administering the Acts. He should certainly be free from any political control on the part of the Ministry of the day.¹

There was no opposition to the bill, although Theodore Fink, MLA for Jolimont and West Richmond, proposed two additional clauses. Fink argued that some of the inspectors appointed since the amendments to the Audit Act of 1893 had been unqualified and incompetent and he suggested that inspectors appointed under the Audit Act 'must have such experience of accounts as the Auditor-General shall deem sufficient, and must hold either the certificate of the Company Auditors Board, or the certificate of some society or institute of accountants recognised by such board'. He also suggested that the Audit Office should be able to appoint qualified auditors as inspectors without necessarily going through all the provisions of the Public Service Act. Mr Peacock and the government accepted the additional clauses, with the proviso that existing inspectors would be given twelve months to gain the required qualifications.

The move to revitalise the Audit Office through the appointment of a 'first class officer' in a 'secure position' was admirable in theory but proved difficult to put into practice. This was not through a lack of suitably qualified people, but the unfortunate circumstance that the first two appointees, James Bagge and James Reid, both died within ten months of taking office. It was not until Frederick Bruford became the third Auditor-General of the twentieth century that the office was able to resolve some of the problems that had developed in the 1880s and 1890s and adapt its activities to the rapidly changing governmental structures following federation.

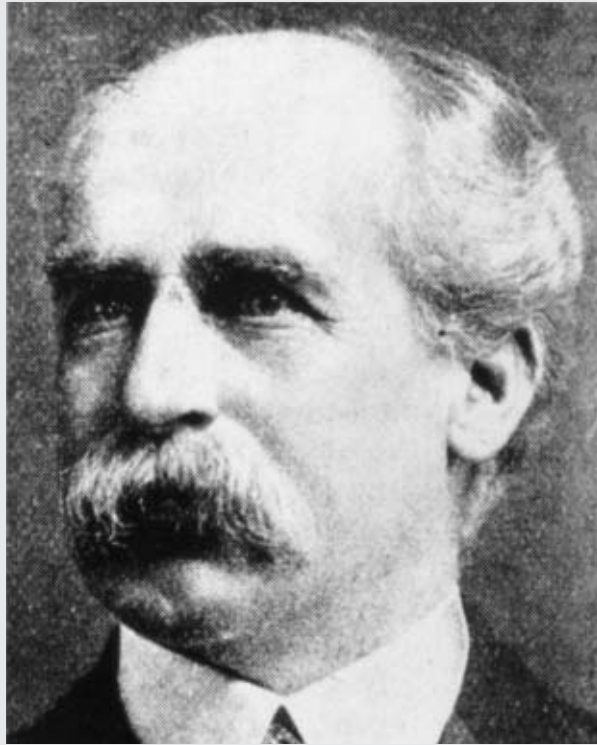
JAMES BAGGE

Born in London in 1853, James Bagge arrived in Melbourne with his family before his second birthday. Educated at the Presbyterian School in South Melbourne, South Melbourne Grammar School and Spring Street Model School, he joined the Education Department as a clerk at the age of sixteen in 1869. He rose through the ranks of the education bureaucracy to become accountant in 1878, chief clerk in 1891 and secretary of the department in 1898. As secretary of the Education Department, many teachers regarded Bagge as a reactionary, opposed to all educational initiatives and concerned mainly with the reduction of expenditure. The Professor of Engineering at the University of Melbourne, W.C. Kernot, claimed that Bagge was 'a mere clerical officer of no standing or experience whatever in educational matters'.² Subjected to attacks of this type, Bagge was probably delighted to be offered the position of Auditor-General in late 1901. He took up the position in January 1902, but died of appendicitis in October, his heart being 'too weak to permit of an operation'.³ James Bagge had never married and was only forty-nine at the time of his death.



James Bagge, Auditor-General, Jan-Oct 1902.

Like James Bagge, his successor, James Reid, was born in England and arrived in Melbourne as a child in the early years of the gold rushes. In 1864, aged only thirteen, he joined the Hobson's Bay Railway Company as a junior clerk. When the government took over the company in 1878, Reid became an assistant bookkeeper in the Railways Department, being promoted gradually to bookkeeper, sub-accountant and, in September 1900, chief railways accountant. An obituarist commented that Mr Reid 'had always a kindly word for, and showed a sympathetic interest in, the youngest of those who were subordinate to him, and the ideals that he fostered among his staff maintained the morale of the branch at a high level'.⁴ With his extensive experience in accounting, Reid was a logical choice as successor to James Bagge, but unfortunately he died of pneumonia and pleurisy on 7 September 1903, aged only fifty-two, leaving a wife, six daughters and a son.



James Reid, Auditor-General, 1902-03.

Neither Bagge nor Reid held office for long enough to make a lasting impression on the work of the Audit Office. They had no time to come to grips with the problems posed by federation and the office fell months behind even in its routine work. Each new Auditor-General had to start at the beginning in developing an understanding of the role and there was a clear loss of continuity.

Following James Reid's untimely death, the government again turned to a senior public servant to head the Audit Office. Fortunately Frederick Bruford enjoyed better health than his predecessors and he established a model for the role of the Auditor-General and the Audit Office largely followed by his successors for the next seventy-five years.

FREDERICK HORATIO BRUFORD

Frederick Horatio Bruford was born in Hobart in 1846 (being the first Auditor-General or Commissioner of Audit to be born in Australia) and his family moved to Melbourne the following year. He joined the public service in 1865 as a clerk in the Customs Department, serving for several years as a landing waiter⁵ in the Port of Melbourne, before being transferred to Port Fairy as 'Collector of Customs and Keeper of the Powder Magazine' in 1874. Within a few months he moved to a similar position in Warrnambool. He became a popular member of the Warrnambool community, being a regular member and occasional captain of the Warrnambool Cricket Club and involved in many other community activities.



Frederick Bruford, Auditor-General, 1903-19.

In January 1878 Bruford was a victim of 'Black Wednesday', being among the hundreds of public servants dismissed during the constitutional crisis, although he was restored to the service in April. As senior customs officer in Warrnambool, Bruford was responsible for overseeing the rescue and salvage operations following the wreck of the *Loch Ard* near Port Campbell in June 1878. A keen amateur artist, Bruford took his easel and brushes to the wreck site, making the first and most authentic painting of the scene.⁶ While in Warrnambool Bruford was instrumental in uncovering defalcations in the accounts of the collector of customs in Port Fairy and he worked closely with a clerk from the Audit Office in examining the accounts to gather evidence for a prosecution.⁷ In 1879 Frederick Bruford was transferred to Port Albert, with the *Warrnambool Standard* commenting that, 'His

departure from Warrnambool, where he has proved himself an efficient officer, will be regretted by a large circle of friends.’⁸

From Port Albert, Bruford was soon promoted back to Melbourne, remaining with the Customs Department until 1891, when he became chief clerk in the Premier’s Department. However, the Premier’s Department was broken up as part of the retrenchment of government expenditure in 1893–94 and Bruford returned to the Customs Department to take charge of the statistics branch. In 1898 he was appointed Deputy Commissioner of Taxation, holding the position until his appointment as Auditor-General in 1903.



Wreck of the Loch Ard, painted by Frederick Bruford while customs officer in Warrnambool, 1878.
(Warrnambool Art Gallery.)

As Auditor-General, Frederick Bruford was noted for his integrity, sense of humour and support for his staff. During this period Bruford and a private sector auditor jointly audited the accounts of the Metropolitan Gas Company, and in June 1910 the Treasury placed strong pressure on the auditors to delete the final paragraph of their report. However, Bruford stood firm because ‘both Mr Sprigg and myself after further consideration think that the report is right’.⁹

While he maintained a firm discipline in the office, he always defended any staff member subjected to criticism. This was shown in the case of one of his senior inspectors, J.T.R. Dalton, who was engaged on the audit of the Department of Agriculture in late 1909 and early 1910. Bruford and Dalton appear to have had a personality clash and Bruford frequently found cause to rebuke his inspector during the course of this audit. In early December Dalton requested leave over Christmas and assistance to complete the audit. Bruford replied:

Referring to memo of the 7th and 9th instant, Mr Dalton is informed that the checking of the Ledger balances is a part of the Inspecting Officer's audit and it is not correct to say that it has always been done from the Audit Office.

It is also incorrect to say that I promised whatever assistance Mr Dalton required to complete the audit by the 20th inst: I never had any intention of giving Mr Dalton any assistance other than that of Mr Bryant.

Mr Dalton's application for leave will be considered when the audit is finished.¹⁰

Several days later Bruford wrote again to Dalton:

Mr Dalton's statements in regard to his absences from duty during the Audit of the Master in Lunacy and Master in Equity are incredible to any one acquainted with the work of the Audit Office and the only reason I do not make a charge of misconduct against him is that I have some doubts as to whether there is sufficient evidence to convince a Board unacquainted with the routine of the office. I warn him that he will be charged with the first instance of irregular attendance or dilatoriness in discharge of his duties which can be proved against him.

His work being unnecessarily behind I do not propose to recommend his application for leave.¹¹

Understandably in a sour mood after these rebukes, Dalton made a highly critical report on the account keeping practices of the Department of Agriculture. The Department reacted sharply to Dalton's criticisms, complaining to Bruford that they were unwarranted. However, Frederick Bruford strongly supported Dalton's report: 'None of Mr Dalton's statements have been controverted; on the other hand his list of irregularities remains intact and in many cases is strongly confirmed.'¹² Although the running battle between Bruford and Dalton continued for several years, the Auditor-General always supported his inspector in disputes with departments.

One important development in the Audit Office during Frederick Bruford's term as Auditor-General was the emphasis on staff gaining accountancy qualifications. This was in part forced by the provision in the 1901 Audit Act amendments requiring that inspectors be properly qualified, but Bruford went further and encouraged all his staff to pursue qualifications. In the 1890s very few clerks in the office had qualifications, but by 1917 the Committee of Public Accounts was able to report that, 'Thirteen of the officers in the State Audit Office have passed recognised examinations in accountancy, three others have passed portion of the examination of the Institute of Accountants and are expected to soon become fully qualified, whilst two others have passed the intermediate examination.'¹³

The position of chief clerk in the Audit Office was vacant from 1897 until mid-1903. Arthur Gates had retired in 1897 and it was not until James Reid's illness in 1903 that Edwin Drake transferred from the Treasury to be chief clerk and deputy Auditor-General. Drake retired in 1906, being replaced by G.W. Fyfe. Fyfe had joined the public service in 1865 at the age of sixteen and came to the Audit Office from the Treasury where he had been acting accountant (a fairly senior position, despite the modest title). Fyfe's successor was Henry

Agg, the son of the long-serving Commissioner of Audit of the previous century, maintaining the tradition of hereditary service in the office.



Staff photograph 1907. Back row, L-R: Porter, Mountjoy, Ingram, Tuckwell, McDonald, Charleson, Stewart, Jenkin, Whitby, unknown; 3rd row, L-R: Haigh, Mitchell, Robinson, Bryant, Petrie, Symonds, Brown, Barry, Vaughan, Foster, Gray, Geller, Mabbott; 2nd row, L-R: O'Loughlin, Henderson, Morrissey, Atkinson, S. Heathershaw, Niall, Dicker, Dunn, Ferguson, White, Lynch; front row, L-R: Fehey, Heathershaw, Connell, Bowe, Bruford (Auditor-General), Gillott, Callaway, Drake, Berthon, Henry, Killen.

The Audit Office staff, as through most of its existence, was very stable during Bruford's period, with officers joining in their teens and rising slowly through the ranks. Inevitably some youngsters found they were not suited to the work. In June 1911, for example, Mr Cogswell came as a temporary clerk, but he was found unsuitable for Audit Office work, while his replacement, a Mr Juniper, only lasted a week.¹⁴ However, most juniors remained with the office for many years, frequently until retirement. Notable among the juniors who joined the office in Frederick Bruford's period was Wilton Howard Cove. Cove was born in 1892 and joined the Audit Office soon after his seventeenth birthday in July 1909 at a starting annual salary of £40. In January 1910 his probationary period ended and the Auditor-General informed the Public Service Board, 'He has given satisfaction in the discharge of his duties and I beg accordingly to ask that the necessary steps be taken for confirmation of his appointment.'¹⁵ He remained with the office until his retirement in 1957,

serving as chief clerk for over twenty years, and becoming the most widely remembered character in the Audit Office.

Not surprisingly, the younger members of the staff most quickly embraced the new technology of the early twentieth century. As late as 1910 the office had only one telephone, placed, not as one would expect, in the room of a senior officer, but in the messengers' room, where the youngsters knew how to use the wonderful new machine. Another technological breakthrough took place in 1908 when the Audit Office bought a Remington typewriter for £25 (over half the annual salary of a junior clerk!). This precious machine was entrusted to S.T. Jennings, the most junior messenger in the office, who was paid an annual honorarium of £15 to do all the office's typing. In 1919 Henry Agg requested the appointment of an experienced typist, writing, 'At present the typewriting is being done by the Messenger and at times considerable delay arises in getting reports and statements and other matters promptly despatched to the Departments concerned, which severely depreciates the value of inspections.'¹⁶ This letter was handwritten, suggesting that Mr Agg did not want the messenger to know of the plan to replace him. However, the request was rejected and typing remained a job for junior males until the 1930s.

In September 1910 the introduction of a third technological innovation was delayed when the office tested a Burroughs Adding and Listing machine, but found it unsuitable for the work of the office. However, in October 1913 the office purchased a Brunsviga Multiplying and Dividing Machine from Sands and Macdougall for £39. The following year Bruford asked the Chief Secretary for permission to purchase 'one of the new type of Burrough's calculating machines' for £150, but permission does not appear to have been granted as there is no record of the office having a Burroughs machine until the 1920s. Presumably these early calculating machines were operated by the junior male clerks, although from the 1920s, 'computing' became as much a female preserve as typing later became.

The first major issue to confront the Audit Office during Frederick Bruford's term as Auditor-General was financial disorder among the hundreds of water trusts in country Victoria. Established in the 1880s with the aid of substantial government loans, during the depression of the 1890s many trusts stopped making loan repayments, with the result that by the early 1900s they were heavily in arrears. The *Water Act 1890* gave the Commissioners of Audit the power to take over and manage any water trust that was more than fifteen months in arrears, but they only used this power once, in the case of the Avoca Waterworks Trust. From 1900 it was mandatory for the Audit Office to take over any trust in arrears, but this was not done due to the disruption caused by the early deaths of James Bagge and James Reid. On taking office Frederick Bruford issued notices to eleven water trusts that he would take them over unless they resumed their loan repayments. Some of these trusts complied, but several, including the Loddon United Waterworks Trust, Carrum Irrigation and Water Supply Trust, Marquis Hill Waterworks Trust and the Cohuna Waterworks Trust failed to meet their obligations and between July 1903 and July 1904 the Audit Office took them over, with the chief clerk, Edwin Drake being appointed receiver.

Mr Drake discovered that the Loddon Trust had not struck a rate since 1896 and consequently had collected no money since then. The situation at Carrum and Marquis Hill was not as bad, but they were almost two years in arrears in their repayments and steadily falling further behind. With both the Loddon and Carrum trusts the works had fallen into a serious state of disrepair and Mr Drake appears to have enjoyed his role as a waterworks manager, supervising the clearing of silted channels, the rebuilding of levee banks and the planning of irrigation works. The trusts remained under the control of the Audit Office until after the formation of the State Rivers and Water Supply Commission in 1906 when they were passed over to the commission in a sound financial condition.¹⁷



Treasury Building decorated for the coronation of George V, June 1911.
(La Trobe Picture Collection, State Library of Victoria.)

Frederick Bruford believed that auditors should act as teachers as well as policemen and he encouraged his staff to do all they could to promote sound accounting practices throughout the public sector. As part of this the Audit Office inspectors always made a point of praising those officials who presented well-kept accounts. On one occasion at least this led to some embarrassment for the office. In August 1909 after the audit of the Geelong Harbor Trust, Bruford wrote to the Chairman of the trust, 'I have pleasure in stating that Mr Crowle, the Secretary, continues to keep the books and accounts in an up to date and excellent manner.'¹⁸ Unfortunately the next audit of the trust found major discrepancies in the wages books, which the auditor traced back to Mr Crowle, leading to the suspension, prosecution and jailing of the highly praised secretary.

The audit of the Geelong Harbor Trust in 1909–10 was eventful, as described by the Auditor-General in a letter to the Attorney-General in August 1910. Mr J. F. White began the audit in December 1909 and it occupied much of his time until 17 April 1910, ‘when he had to return to Melbourne owing to a severe attack of Typhoid Fever’. By this time the audit had been completed except for the wages sheets and these were checked by another clerk, J. C. Ingrams, who soon detected that they were full of discrepancies and false entries, leading to charges against Crowle and an accomplice. Crowle’s lawyer attempted to delay the workings of justice by insisting that Mr White be called to give evidence, knowing that the ailing auditor was recuperating in Sydney, but Mr Bruford convinced the Attorney-General that Ingram had a full grasp of all details of the audit.¹⁹ Mr White’s recovery from typhoid was a slow process and he did not return to work until 20 September.

The Geelong Harbor Trust was a continuing source of concern to the Auditor-General during the years before the First World War. In 1908 he drew attention to the extraordinary actions of the trust in turning the old Geelong Racecourse into a farm. Not only was the trust’s right to the racecourse land in some doubt, but the *Geelong Harbor Trust Act* did not include farming as one of the trust’s legitimate activities. Mr Bruford commented that ‘to enter upon a business on a large scale of a character which has nothing to do with Ports and Harbors without the specific and clearly expressed sanction of Parliament is, in the broadest sense of the word, illegal — it is unlawful, improper’.²⁰ This rebuke did not slow down the empire building by the Harbor Trust commissioners. The following year, not only had the farm business expanded, but the commissioners had set up a freezing works and cool store in North Geelong, together with a slaughter house, skin and wool shed, tallow works, manure works and other business enterprises. The Auditor-General conceded that running a cool store was within the powers of the Harbor Trust, but argued that the other activities were clearly illegal: ‘If farming and slaughtering may be carried on by the Commissioners, then there is no limit to what may be done with the Trust’s money.’ Bruford made it clear that he was not concerned with the issues of policy involved in the extension of public business enterprises, but ‘my object is only to point out that the expenditure on them is not authorized by Parliament’.²¹

Following this report, the government took steps to legalise the farming, slaughtering and freezing operations of the Geelong Harbor Trust. However, the Auditor-General believed that the accounting systems in place at the trust were inadequate for a substantial business operation. He noted that the simple list of receipts and disbursements presented by the trust ‘might have been sufficient for a Trust doing nothing but collect and disburse wharfage and harbor rates, [but] is wholly inadequate where extensive trading operations are carried on’. Further, under the act, the harbor trust was obliged to pay twenty per cent of its revenue into consolidated revenue and the Auditor-General noted, firstly, that the trust had not done this for many years, and, secondly, that it would impose an intolerable burden on the trust’s businesses if the provision was enforced.²²

Unfortunately the Harbor Trust made no efforts to improve its accounting methods or stabilise its financial position. In his report for 1912–13, the Auditor-General noted that the

trust had raided its sinking fund to prop up its businesses, with the result that 'the sinking fund as a substantial fund has disappeared, except for £81 2s. 1d.'²³ The trust had also taken out a large loan to liquidate its overdraft, although this was illegal under the Geelong Harbor Trust Act. Presumably this report prompted remedial action as there were no specific comments on the trust over the next few years.

The problems with the Geelong Harbor Trust were symptomatic of the difficulties facing many of the new government industrial and business enterprises established between 1900 and 1914. Set up in a period in which integrity and morality in government were at a low ebb, particularly during the premiership of Thomas Bent, financial rectitude was not a major consideration for the new enterprises. Perhaps the archetype of the government businesses was the State Coal Mine at Wonthaggi. Set up in 1908 in an attempt to free the Victorian Railways from its total dependence on New South Wales coal, the mine was a constant cause of concern for the Auditor-General.

In its first decade, the Auditor-General reported on many issues arising out of the audit of the State Coal Mine, ranging from the trivial to very serious. The mine's administrative staff treated the mine's funds rather like a private bank, and the Auditor-General frequently imposed surcharges for missing money and cited defalcations by the staff.²⁴ The Auditor-General also noted the casual working habits practised at the mine. For example, in November 1916 he wrote to the Treasurer pointing out the 'numerous occasions upon which the State Coal Mines Accountant at Wonthaggi visits Melbourne on weekends on official business'. He came to Melbourne almost every weekend (charging his expenses to the government), and apparently believed that the weekend went from Friday to Wednesday. As the State Coal Mine had a fully staffed Melbourne office, Bruford believed there was no genuine need for the visits, and implied strongly that the accountant spent most of the time in Melbourne in the company of a woman other than his wife.²⁵

These were serious issues that reflected an unhealthy culture at the mine, but the Audit Office was also concerned that the mine's accounts were poorly kept and that the accountant seemed unable to produce a balance sheet. It was not until 1914 that the mine management produced a proper set of accounts, and, as with most other government businesses, it could only produce a balance sheet with the aid of Audit Office staff.²⁶

Another issue which worried the Auditor-General was the legal position of officers of the State Coal Mine. As was common with the legislation of the Bent Ministry, the act which set up the coal mine was vague on some basic details and the lines of responsibility from the mine to the government were very unclear. This became an issue in 1913 when the Audit Office queried an extra payment made to a clerk at the mine without ministerial approval. Although the railways commissioners ran the mine, they argued that workers at the mine were not governed by the Railways Acts. The Solicitor-General and the Attorney-General both concurred with this view, leading to a wonderful piece of sarcasm in Bruford's next annual report:

If the opinion that the officers of the State Coal Mine are not railway officers be accepted, they are under no law whatever. They have no rights and no legal obligations. They may be granted unlimited leave, but have no right to any. They may receive gratuities for any purpose, and their salaries are subject only to the decision of the Commissioners ... they may be appointed by the Commissioners at pleasure without the approval of the Governor in Council and they may be dismissed at pleasure without the right to any appeal ... All this appears to me to reverse the policy of Parliament, which seems to have been to make the Wonthaggi employees Railway servants, and subjects to the same rights and limitations.

He then pointed out that, if the law officers' opinions were correct, the staff of the State Coal Mine were not covered by fidelity guarantees, as these assumed they were railways employees, and that any defalcations could result in heavy losses. Finally, he showed that all the senior officers of the mine had been appointed under the Railways Acts and if this did not apply then their appointments were all illegal.²⁷ Faced with these arguments, the government speedily backed down and passed legislation clarifying the legal position of the mine staff.²⁸

Although the worst abuses in the Railways Department were removed in the 1890s following the dismissal of George Speight as Chief Commissioner, the railways remained the dominant concern for the Auditor-General in the early twentieth century.²⁹ In his report for 1903–04, Frederick Bruford described the system of auditing the railways accounts. The revenue was checked by the railways auditor and his staff, who were employees of the railways, while the expenditure accounts were audited in the Audit Office. Bruford praised the railways auditor's work as being 'very complete' but noted that there was still one radical defect:

The Railway Auditor is practically under the Railways Commissioners. He is one of the Railway Staff, and paid out of the Railway Votes, and he is consequently not in the independent position necessary to an auditor. His salary and position should be secured to him by means similar to those adopted in regard to the Auditor-General ... [and] he should report to Parliament instead of to the Commissioners.³⁰

The government took heed of this report and went even further than the Auditor-General suggested. Under the *Railways Audit Act 1906* a senior member of the Audit Office staff was appointed railways auditor with overall responsibility for the railways accounts and reporting through the Auditor-General to Parliament. While the existing internal audit system remained in place, the railways auditor now had the independence Bruford had demanded. This was also the first instance of a member of the Audit Office staff being placed permanently 'on location' away from the office, a practice that became widespread for the next seventy years.

The first railways auditor under the Railways Audit Act was W.C. Tope, who had started work at the office in 1878 one month before his sixteenth birthday and was one of the most experienced Audit Office clerks. Initially he carried out the railways audit by himself, but

over the years the number of clerks seconded to the railways gradually increased until it became a home away from home for up to five auditors and support staff.

The appointment of a railways auditor from the Audit Office did not prevent the Auditor-General having some major issues with the railways commissioners. Probably the most serious of these concerned the *Railways Loan Application Act 1915*, which Mr Bruford feared greatly lessened the control the Audit Office and the Parliament had over railways expenditure. While the railways commissioners could not exceed the total expenditure voted by Parliament, the Act appeared to give them unlimited discretion in allocating that expenditure. As he stated in his report for 1917–18, ‘The passing of the *Railway Loan Application Act* has rendered the expenditure limiting sections of the authorising Acts of no effect, and has handed over from Parliament to the Railways Commissioners, the power which Parliament previously had of deciding how and where the money from Railway loans should be spent.’ In spite of Bruford’s warnings, neither the government nor the Parliament addressed this issue before his retirement.

For several decades there had been a running fight between the Audit Office and the railways commissioners over the commissioners’ practice of making many payments to railways workers and their families that were not authorised by Parliament. Over the years the Commissioners of Audit and the Auditors-General had surcharged these payments with the result that by 1918 surcharges against the railways made up ninety per cent of unsatisfied surcharges against all government departments. After many years of merely noting the surcharges, Frederick Bruford launched a fiery attack on the railways commissioners and the Treasury. He accused the commissioners of adjusting salaries illegally for many years and ignoring his surcharges. He continued,

the fundamental defect which renders such an illegality possible is the failure of the Treasurer to carry out Section 42 of the Audit Act which provides that when surcharged, he shall surcharge the person responsible for the fraud, mistake or error, and deduct, if necessary, the amount of the deficiency from their salaries or any moneys due to them. The Treasurer can, of course, remove the surcharges, but the Act says that he must make them. I may say that I have never known a surcharge to be made under Section 42. That section has fallen into complete disuse and until it is reinstated as living law, the Audit Act will have no vital force. This provision is its driving power. I venture to think that if the law regarding surcharging had been habitually enforced, the Commissioners being personally responsible for the deficiency of money caused by the illegal measures would have respected the law.³¹

Although this diatribe had no impact on the actions of the Treasury, the railways commissioners appeared to make more effort to keep their payments to employees within the law.

During his term as Auditor-General, Frederick Bruford was faced with only one major constitutional issue. For over thirty years Thomas Bent had disgraced the public life of Victoria. A man devoid of principle and with no comprehension of the concepts of ethics or morality in public life, Bent had survived disgrace and bankruptcy in the 1890s to re-emerge

as Premier in 1904. His ministry was surprisingly constructive (seeing the establishment of the State Rivers and Water Supply Commission, the Closer Settlement Board and other important government agencies), but, less surprisingly, was also tainted with corruption. The Parliament finally tired of Bent's amoral administration and he lost a vote of confidence in December 1908. However, rather than recommending that the Governor ask one of the opposition leaders to form a ministry, Bent recommended a dissolution of Parliament, even though Supply had not been voted for December and there were insufficient funds legally available to meet the government's commitments. When the Under-Treasurer told him that payments could not be made, Bent instructed him in writing, 'I say pay, the public creditor must be met; go on paying.'³²

On 30 December 1908 Frederick Bruford made a special report to the Parliament, drawing attention to the fact that the Treasury had spent over £120,000 that had not been voted by Parliament and for which warrants had not been signed by the Governor. He stated that this was contrary both to the Audit Act and the Constitution Act and concluded, 'I have thought it necessary to make a Special Report of this circumstance, because of the grave issues involved in the fact that public money has been and is being expended without the sanction of Parliament.'³³

The Auditor-General's report contributed to the groundswell of public opinion that saw the ministry swept from office and ensured that Thomas Bent's scandal-ridden public career finally came to an end. It also led to an amendment to the Audit Act to restore the Auditor-General's role in counter-signing the Governor's warrants that had, seemingly inadvertently, been omitted from the Audit Act of 1901.

As well as the major issues which arose from time to time, Frederick Bruford was concerned with good management and accounting techniques throughout the public service. In 1910 he pointed out to the Public Works Department that it should use a petty cash system for payments of less than five shillings. This came after an audit of the department showed that it was using the same system of elaborate controls for all payments, whether they were for sixpence or six million pounds. To make his point, Bruford returned one voucher to the departmental secretary, writing that even

if it were the only one, the system should be altered, if only to avoid ridicule. This document apparently bears marks put on by 18 different persons, whilst it is merely for the payment of 6d to a carrier and should have been a petty cash transaction. I trust that you will reconsider this matter as I do not think this over elaboration is creditable to the Service, nor do I think it would bear investigation. Kindly return the voucher.³⁴

On the same theme he pointed out to the Secretary of the Education Department (in a beautifully phrased memorandum)

that there are a large number of claims for small amounts paid by the Education Department for the Department of Public Works. These claims are individually signed by a large number of officers and more labor is spent on them than I believe to be necessary and more importance is attached to them than they deserve.³⁵

One important function of the Audit Office in this period was to give approval to the financial structure of all municipal loan schemes. Frequently the schemes were unsound and the Audit Office staff had to completely reframe them before they could be approved. By 1910 many municipal officers had come to rely completely on the Audit Office to organise their loans, with occasionally humorous results. In May of that year Mr Bruford wrote to the secretary of the Shire of Corio:

You appear to be under a misapprehension in regard to this scheme. It is not my scheme requiring your Council's approval, it is your scheme requiring my approval. The fact is that an officer of this Department thinking it too difficult a task to instruct you how to frame a scheme, did it for you himself, and so saved you the expense of employing a professional accountant. Perhaps if your Council had known this, it would have made some acknowledgment.³⁶

Even the audit reports of the inspectors could have elements of humour. When John Robinson audited the accounts of the Superintendent of Police in 1906, he decided to check the register of unclaimed property against the contents of the lost property cupboard. He was gratified to find that everything was as listed — one large gold ingot and five silver ingots, a ten dollar Confederate note, a bomb case, a bag of speculums, a set of the works of Shakespeare, a volt meter, a revolver, ten bottles of whisky and a blood-stained 'chopper'.³⁷

The First World War overshadowed the final years of Frederick Bruford's term as Auditor-General, even though the war appears to have had only a limited impact on the work of the office. The war is mentioned only once in the annual reports between 1914 and 1919, when the Auditor-General referred to the inspections being slightly behind in 1915, partly due to some staff having enlisted. It is surprisingly difficult to establish how many staff from the Audit Office served in the First World War, as the office gave differing responses to questionnaires on war service. While in November 1916 six officers were cited as having enlisted, a statement in October 1919 showed only three staff enlisting. It appears, in fact, that at least eight staff served overseas, including J.B. Clarke, Frank Noonan, Francis Selleck, Joseph Grigsby, Bertram Strong and G. Wall. None was killed, although Clarke was still in the Caulfield Repatriation Hospital in 1921, suggesting that he must have been seriously injured. Francis Selleck rose to the rank of captain and was awarded the Military Cross.

The war led to an increase in the work of the office, as the Auditor-General was required to audit the accounts of various war-related bodies such as the State War Council, the Red Cross and various patriotic funds. In addition office staff were often seconded to other departments or organisations to cover the extra demands of the war. For example, in October 1916 the Auditor-General wrote to the Treasurer stating that 'Mr James Lynch of this Office has been absent from 15th April 1916, assisting the War and other Charities in connection with the various Button Funds [but] his services are urgently required at the present time and I should be pleased if steps be taken for his return.'³⁸

By the end of the war, Frederick Bruford was seventy-two years old and his health was beginning to fail. Although there was no statutory requirement for him to retire, nor any public suggestions that he do so, as soon as the end of the war was in sight he announced his desire to step down, enabling the government to begin assessing popular successors. He retired from office in February 1919, after a distinguished term of office, but did not enjoy a long retirement, dying in December 1920. Bruford's most important contribution was to restore the position of the Audit Office, which had suffered somewhat in the 1880s and 1890s. Unlike his predecessors Bruford was not obsessed with minutiae, taking a broader view of the role of the Audit Office in protecting the public interest and ensuring that the wishes of the Parliament were carried out by the executive.

¹ *P.D.*, vol. 99, p. 3795, 19 December 1901.

² Quoted in R.J.W. Selleck, *Frank Tate: a biography*, Melbourne, 1982, p. 113.

³ Obituary in the *Australasian*, 25 October 1902.

⁴ *Argus*, 8 September 1903.

⁵ As a landing waiter, Bruford's duties were to 'take account of all goods landed from ships at his station; examine the same for duty; and to record particulars in red and blue books; to have general supervision over weighers at his station'.

⁶ *Argus*, 7 June 1878; *Warrnambool Standard*, 19 May 1886.

⁷ *Warrnambool Standard*, 11 and 21 January 1879.

⁸ *Warrnambool Standard*, 29 April 1879.

⁹ Bruford to Under-Treasurer, 28 June 1910; PRO VPRS 2043, Audit Office letter book, 1909–12.

¹⁰ Bruford to Dalton, 15 December 1909; PRO VPRS 2043, Audit Office letter book, 1909–12.

¹¹ Bruford to Dalton, 20 December 1909; PRO VPRS 2043, Audit Office letter book, 1909–12.

¹² Bruford to Secretary for Agriculture, 7 March 1910; PRO VPRS 2043, Audit Office letter book, 1909–12.

¹³ Committee of Public Accounts report on the State Audit Office, August 1917, *VPP*, 1917, vol.1, p. 594.

¹⁴ PRO VPRS 2043, Audit Office letter book, 1909–12.

¹⁵ Bruford to Public Service Board, 24 January 1910; PRO VPRS 2043, Audit Office letter book, 1909–12.

¹⁶ Henry Agg to Chief Secretary, 10 September 1919; PRO VPRS 2043, item 5.

¹⁷ *Report of the Auditor-General 1903–04*, p.213; 1904–05, p.223; Auditor-General to Minister for Water Supply, 8 January 1910; Audit Office letter book, 1909–12, PRO VPRS 2043.


¹⁸ Bruford to Chairman, Geelong Harbor Trust, 2 August 1909, Audit Office letter book, 1909–12, PRO VPRS 2043. Note that during this period the 'harbor' in Geelong Harbor Trust was invariably spelt without the letter 'u' in harbour.

¹⁹ Bruford to Attorney-General, 8 August 1910; Audit Office letter book, 1909–12, PRO VPRS 2043.

²⁰ *Report of the Auditor-General*, 1907–08, p. 314.

- ²¹ *Report of the Auditor-General, 1907–08*, p. 228.
- ²² *Report of the Auditor-General, 1909–10*, p. 232.
- ²³ *Report of the Auditor-General, 1912–13*, p. 226.
- ²⁴ Surcharges were made when the Auditor-General was not satisfied with some aspect of a payment by a government agency. The minister, his department, or, more frequently, the culpable individual, was made responsible for reimbursing the money. In practice, surcharges were often made but rarely enforced.
- ²⁵ Bruford to Treasurer, 13 November 1916, PRO VPRS 2043, item 4, Audit Office letter book 1916–19.
- ²⁶ *Reports of the Auditor-General, 1911–12, 1912–13, 1913–14*; Report of the Committee of Public Accounts on State Industrial Undertakings, *VPP*, 1912, vol.1, pp. 975–8.
- ²⁷ *Report of the Auditor-General, 1912–13*, pp. 224–5.
- ²⁸ Similar issues dominated the early years of the state-owned sugar beet factory at Maffra and the cool stores at Victoria Dock, and these have been fully analysed in Trumble, *Thrift and the Noiseless Step: 100 years of Public Accounts Committees of the Parliament of Victoria*.
- ²⁹ The turbulent career of George Speight, his dismissal and his subsequent libel action against David Syme of the *Age* is discussed in Sayers, *David Syme*, ch. 19.
- ³⁰ *Report of the Auditor-General, 1903–04*, p. 216.
- ³¹ *Report of the Auditor-General, 1917–18*, p. 205.
- ³² Special Report of the Committee of Public Accounts, 30 June 1909, *VPP*, 1909, 2nd session, vol.1, p. 9.
- ³³ Special Report of the Auditor-General of Victoria, 30 December 1908, *VPP*, 1909, 1st session, vol.1, p. 65.
- ³⁴ Bruford to secretary, Department of Public Works, 25 February 1910; PRO VPRS 2043, Audit Office letter book, 1909–12.
- ³⁵ Bruford to Secretary for Education, 27 January 1910; Audit Office letter book, 1909–12, PRO VPRS 2043.
- ³⁶ Bruford to secretary, Shire of Corio, 17 May 1910; Audit Office letter book, 1909–12, PRO VPRS 2043.
- ³⁷ Report on the inspection of the accounts of the Superintendent of Police, 22 December 1906; Audit Office Report Book, 1900–09, PRO VPRS 2048, item 1.
- ³⁸ Bruford to Treasurer, 4 October 1916; Audit Office letter book, 1916–18, PRO VPRS 2043.
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10



Prophet in the wilderness –
John Norris as Auditor-General, 1919-37

In its report to Parliament in December 1919 the Committee of Public Accounts recommended that the Auditor-General appointed on the retirement of Frederick Bruford should be asked to take a wider view of the powers conferred on him ... so that he might report to the Legislative Assembly any instances of waste or extravagance which might come under the notice of his office during the auditing of the State accounts. In short, the Committee thought the Auditor-General should be more of an auditor in the broad sense of the term and not merely a bookkeeper reporting on yearly balances of accounts.¹

The government's choice of John Norris, the chief accountant of the Treasury, indicated that it shared the view of the Committee of Public Accounts. More than any Auditor-General before the 1980s, John Norris concerned himself and the Audit Office with broad issues of economic policy and public finance. Throughout the years of extravagant government borrowing in the 1920s and the succeeding financial crisis and mass unemployment of the 1930s, John Norris watched over the Treasury accounts with the vigilance of a hawk, admonishing successive governments for straying from the paths of financial rectitude and warning of the dire consequences of excessive borrowing. While there was no lessening of the Audit Office's commitment to one hundred per cent transaction auditing of the accounts of government and semi-government bodies, the emphasis in the Auditor-General's reports to Parliament was always on macro-economic issues.

JOHN ALEXANDER NORRIS

John Alexander Norris was born in 1872 in County Derry, Ireland and came to Australia with his parents in 1880. Educated at Williamstown Central and Williamstown Grammar schools, he joined the public service at the age of fourteen, beginning his career in the post office. In 1893 he was a telegraph operator and accompanied the Premier, Sir James Patterson, on country trips to send reports of his speeches to the Melbourne newspapers. In one speech at Port Campbell, Patterson, who liked to give his speeches a literary flavour, told the audience that if the people would 'read more Bacon and eat less bacon' it would be better for the nation. He was greatly upset when he read in one of the papers the next day that 'if the people would rear more bacon and eat less bacon, etc.' 'How did this occur?' the Premier asked the youthful operator. Mr. Norris explained that the mistake must have occurred in the newspaper office. 'But it is not as bad as it seems, Mr. Patterson,' he added. 'Most people who read that will come to the conclusion that you are advocating an export trade in pork.' The Premier looked thoughtful for a moment, then placed his hand on Mr. Norris's shoulder, 'You will go a long way, young man,' he said. 'I shall be surprised if you don't reach the top.'²



John Norris, Auditor-General, 1919-37.

From that time Norris's progress was rapid. Having completed his accountancy studies, he had short stints at the Office in charge of Friendly Societies and the Chief Secretary's Office before transferring to the Treasury in 1907, where he was involved in several

significant inquiries which brought his name to prominence. In 1911 he wrote a report on Victoria's roads recommending the establishment of a central roads authority and providing a blueprint for its structure. The government closely followed Norris's prescription when it set up the Country Roads Board in 1912.³ Also in 1911–12 Norris was a member of a board of inquiry into the gas industry which was praised for reaching 'eminently sensible and apolitical conclusions' even though these were largely ignored by politicians.⁴ Following this, Norris was chosen to accompany the Premier, W. A. Watt, as financial adviser on an official visit to Britain. During this trip he was able to visit Ireland, writing home that, 'It is the land of my birth and I was astonished how vivid my recollection was of the district between Coleraine and Ballymoney, with which I was familiar in my boyhood days.' In 1914 Norris was promoted to the position of accountant to the Treasury, the position he held till his appointment as Auditor-General. Following his appointment, John Norris became the first Auditor-General to travel overseas while in office, accompanying the Treasurer, William McPherson, on an official visit to Britain in March 1919.

John Norris was a typical classical economist of the late nineteenth century. He believed in minimal government expenditure, abhorred government borrowing and was certain that a budget deficit was a mortal sin (he would feel very at home in the Federal Treasury today). He was a close friend of Australia's leading economist, Sir Douglas Copland, and frequently sought his advice on economic issues. For example, in July 1934 he wrote to Professor Copland asking for information on 'the methods of issue, management and redemption or conversion of the Funded Debt, the Internal Debt, the External Debt and the Treasury Bills which go to make up what is commonly called the "Capital Account" in the Finance Statements of the United Kingdom'⁵.

Norris appears to have been a well-liked, if remote, figure in the Audit Office. There are many examples of his compassion to staff members with personal or financial problems and he was generous in his references for those who sought promotion. However, he had a poor memory for names and faces and he often forgot the names of even his senior staff. He was a keen golfer, and like several of his predecessors a member of the Melbourne Club (where he would frequently adjourn for the afternoon). Norris had three children — one son became a judge, another was killed in the Second World War, while his daughter became famous for her handy household tips under the *nom de plume* Martha Gardner.

Norris enjoyed a lengthy retirement, serving in the Second World War on the Red Cross Relief Fund and the Air Raid Protection organisation. He died in 1962 aged ninety, the greatest age yet attained by a Victorian Auditor-General.⁶

While John Norris concentrated his attentions on the Treasury audit and wide issues of public finance, the day-to-day running of the Audit Office was largely in the hands of two outstanding chief clerks, Henry Agg and Wilton Cove. Henry Agg was born in 1864 and joined the public service in 1882 as a clerk in the Treasury. He rose through the ranks to be head of the accountancy branch before transferring to the Audit Office as chief clerk in 1915. Henry Agg was renowned for his encyclopaedic knowledge of Victorian statutes and the regulations governing the workings of government instrumentalities. In 1919 he was able to

put this knowledge to good effect. On the retirement of Frederick Bruford, the government attempted to pay him less than his statutory entitlements, but Agg prevented this by pointing out that it would be illegal unless specifically voted for by Parliament.⁷

Henry Agg died at the age of sixty-one in 1925 and the position of chief clerk remained vacant for six years, with James Robinson, the senior audit inspector, performing most of the duties, until his retirement in 1928. For the next three years Robert Thompson carried out the role of chief clerk and deputy Auditor-General. Thompson had joined the public service in 1883 at the age of seventeen, serving as a clerk at the Beechworth Lunatic Asylum, before transferring to the Audit Office in 1891. It is unclear why Thompson was not appointed chief clerk, but until his retirement he supervised the work of the office and deputised for the Auditor-General when required.

Following Robert Thompson's retirement in April 1931, Wilton Cove completed his steady move up the ranks by being appointed Chief Clerk, a position he was to hold for twenty-six years.⁸ In the last years of the Norris era, Cove assumed total responsibility for running the office and controlling the audits. He was a strong-minded and capable man. Although he could be domineering and authoritarian, most long-serving staff members came to regard him with affection and saw that he had a soft heart beneath the stern appearance. Bruce Hamilton, who joined the Audit Office in 1941, recalls that Cove had an amazing knowledge of State finance and all legislation and regulations to do with the public accounts, and he controlled the Treasury audit with a firm hand.



Cricket Team 1920. Standing, L-R: G. Williams, J. Cahill, unknown, Ellis, H. Caldwell, J. Worrall; sitting, L-R: S. Molan, Redvers Gillard, W. Chitty, D. H. Dunn, R. Doolan, A. J. Teague; front, L-R: V. Gill, W. Dynon.

In the 1920s government policy and public opinion insisted on giving priority to returned servicemen in employment. By 1924 the Audit Office had ten returned men on the staff and this number stayed fairly constant throughout the inter-war years. Given the horrors they had experienced during the war it was inevitable that many returned men found it difficult to adjust to civilian life. In a report on the office in 1936 John Norris noted that all male members of the staff had completed or were studying for their accountancy qualifications except for a few older men and most of the returned soldiers.⁹ Despite this, many of the returned men gave valuable service to the office. Jim Woods, who transferred to the Audit Office in 1937, remembers Bill Nichols, who had lost a leg in the war, as a good worker.

The story of Frank Noonan gives many useful insights into the work of the office in the 1920s and the position of returned servicemen in particular. We are fortunate in having the details of his case given in a letter written in 1925 by the Auditor-General seeking Noonan's permanent appointment to the public service:

Mr. Noonan passed the examination held for the appointment to the Clerical Division in December 1907, and was appointed to a position of 5th Class Clerk in this office on six months' probation on 1st February 1908. He performed his duties in a very satisfactory manner until the outbreak of war, when he volunteered for service and was granted leave to join the First Expeditionary Force from 18th August 1914. In August 1918 he was invalided back to Australia, and on the 28th of that month he resumed his duties in the Audit Office. He continued in the performance of those duties until 21st March 1920, when he was promoted to a Fourth Class position in the Treasury. Owing to ill-health occasioned by his war experiences, Mr. Noonan found it necessary to resign from the Public Service, and his resignation was accepted as from 1st January 1922.

In order to recuperate his health, Mr. Noonan decided to follow farming pursuits, and, although he met with financial disaster in his new sphere, he was successful in having his health completely restored to him. He returned to Melbourne, and was appointed as a temporary Clerk in this office on 22nd November last. His service to date has given every satisfaction.

It will be seen that Mr. Noonan has not only served the State well, but that he was on active service in Gallipoli and France practically throughout the duration of the war. His condition of health at the time of his resignation was undoubtedly caused by his war experiences and he was influenced in his decision to resign by the fact that the work of the Department was being hampered by his absence from duty on extended sick leave.

Having completely recovered his health, Mr. Noonan now desires that he be again permanently appointed to the Public Service of Victoria, and I am of opinion that this might properly be done under the provisions of Section 2(a) of the Public Service Act No. 2925. His early experience and training in this office, combined with his knowledge of Audit Office practice and procedure, and of the Audit Acts and the General Regulations respecting Public Accounts, would make his service valuable to this Department. He has already proven that he possesses the necessary qualifications for appointment to the Clerical Division, and I should therefore be pleased if you would be good enough to give early consideration to his case, as I am satisfied

that he has well earned his appointment to the Service, and is a good and highly capable Audit Officer.¹⁰

Noonan received his permanent appointment in January 1925. It is noteworthy that Noonan was an unsuccessful soldier settler, as resolving the financial difficulties of the soldier settlement scheme was one of the greatest challenges facing the Audit Office in the Norris era.

Except for Sarah Griffin, who was the office 'housekeeper' in the 1850s, the Audit Office was an exclusively male preserve until the 1920s. On 20 January 1926 John Norris wrote to the Chief Secretary:

On 'outside' audits, particularly in the Metropolis, much of the time of the Inspecting Officers and others engaged on the audits is given to adding up Cash books, ledgers, journals, &c. This is not economical. I have given the matter considerable attention and I am satisfied that the practice followed by private auditors is less expensive and more efficient. It is the custom now to send experts with machines ahead of the auditor and to have all additions completed in readiness for the auditor. The experts are girls trained by the agents for the adding machines; adding machines are of little value without the experts.

The staff of this office has been reduced recently by the abolition of two fifth class clerks. I raised no objection to the reduction for the reason that I had in view the appointment of two female experts as now suggested. Will you be good enough to requisition the Public Service Commissioner for the appointment of two females who are expert in the use and application of adding machines to audit purposes.

The additional work imposed upon this office, together with the growth of the general work of several departments and of State activities, require the adoption of modern methods and the cutting out of all work that can be avoided without impairing efficiency.¹¹

It is interesting that it was never thought possible for a male to become expert in operating a comptometer. The Audit Office had obtained its first calculating machines in 1913 and presumably these had been operated inexpertly by junior males. However, as a result of Norris's letter, Doris MacFarlane and Freda Sanderson began work in April 1926 as 'Female Machine Computers (Temporary)'. Under the Public Service Act their employment could only be temporary and their appointments had to be renewed every six months. Their annual salary was £169.



A comptometer – a mechanical adding machine as used in the Audit Office from the 1920s to the 1960s.

The female comptometrists lived up to Norris's expectations and by 1931 there were five employed in the office. As their employment was only temporary, there was strong pressure to sack them as an economy measure in the depression, but Norris resisted this strongly. In February 1930 the Chief Secretary refused to extend the employment of Miss F. M. Grosvenor, but Norris succeeded in having the decision reversed, arguing, 'I can emphatically give this assurance — the employment of expert female computers in lieu of 5th class clerks means a large saving in expenditure.'¹² Similarly, in 1933 the Public Service Board attempted to reduce the pay of the comptometrists in the Audit Office, leading to the following response from Wilton Cove:

When the female computers were introduced into the Audit Office, it was recognised by the Public Service Commissioner and the Auditor General that the margin of skill required for the proper performance of their duties warranted the payment of salary rates considerably in excess of the general rates paid to female officers in other Departments of the Public Service. Arrangements were consequently made with the Burrough's machine representatives to ensure the selection of the most suitable and efficient computers and the wisdom of this course is reflected in the satisfactory manner in which these officers have performed the duties allotted to them. In recognising the value of their services, the Commissioner authorised rates of pay which were £20 [per annum] in excess of the rates paid to other female employees.

In addition to their duties as machine computers, these officers have been trained to assist Inspecting Officers in carrying out audits and inspections, and have been called upon to undertake other office duties which require a fundamental knowledge of the Audit Act and regulations, and of the legislation relating to the departments whose accounts they are called upon to examine.

In the Railways Branch, one computer is checking the computations of all L 2. accounts of the Railways Department, a task that was not possible before the introduction of machines owing to the heavy cost to the State. Increased efficiency and reduced costs have been similarly achieved in other branches of this office, and it is contended that the employment of these officers has resulted in a saving of at least nine fifth class clerks, costing approximately £2,700 per annum.

It will be recognised that the proper performance of their duties requires special training in audit work in addition to their proficiency in operating the calculating machines, and it is therefore strongly recommended that the rates in operation at 1st July last be retained, or alternatively that an allowance of £20 per annum be paid to each of these officers¹³ in addition to the nominal salary rates noted above.

The success of the comptometrists led to the employment of more women in the office. In March 1927 John Norris told the Chief Secretary's office that he proposed installing a card registration system for public service pensions and he felt that 'this work can be done by a female assistant under the supervision of an experienced officer'. This led to the employment of Miss A. Balaam, a 'typist with a good general knowledge of bookkeeping'.¹⁴ General typing duties remained a job for men until the late 1930s. Mr J. Worrall was the senior typist for many years until his appointment as an inspector of factories in 1937 and he was assisted by Percy Wilson, who also 'answered enquiries and generally assisted'.

The public service was insulated to some extent from the impact of the depression. Pay rates were cut (although by less than the fall in prices), promotions were withheld and recruiting was suspended for several years, but public servants were almost the only group in the community who had security of employment at a time when unemployment rates rose to over thirty per cent. Nonetheless the depression caused great difficulties, essentially because the work of the office increased while staff numbers fell due to deaths and retirements. In addition the usual pedantic economising of the public service was taken to extremes in the early 1930s, often to the detriment of efficiency. For example, in January 1930 Norris asked the Government Printer for two sets of the Victorian statutes for 1929 but the Premier noted on the request in his own hand: 'cannot Auditor-General do with 1 set of Statutes as decided upon?' Norris replied:

With a staff of 52 officers, I don't consider that one copy of the statutes is in the interests of economy. The nature of the work of this office requires constant references to the Acts of Parliament by the Examiners and the Inspecting Officers and myself. I do not know who decided that one copy was to be supplied. I can only assume the decision was made without a knowledge of the requirements.¹⁵

In September 1931, Wilton Cove prepared an inventory of surplus furniture in the office, including 'One cushion (damaged, worth repairing)'.

During John Norris's nineteen years as Auditor-General, the main focus of the Audit Office was on broad issues of public finance. This was partly due to the philosophical conception John Norris had of the role of Auditor-General and partly to the economic circumstances of the period. The 1920s was a decade of extravagant public borrowing and it was followed by the financial crisis and massive unemployment of the early 1930s. Not since the 1850s and not again until the 1980s was the Audit Office so deeply involved in questioning the financial management of the Treasury. It has been said in the Audit Office that the office is doing its job properly if it is accused of straying into areas of policy — this had not occurred since the constitutional crisis of 1878, but happened regularly in the Norris era.

Between 1919 and 1929 the Victorian public debt more than doubled, from £77 million to £156 million, with annual interest payments increasing from £3 million to £7.5 million. By 1929 interest payments made up over twenty-five per cent of government expenditure. During these years John Norris was a lone voice calling attention to these figures and warning of the inevitable consequences. In every annual report for this period he commented on the growing public debt, the rapid increase in government expenditure, and the use of loan funds for current expenditure or non-productive capital works. He approved of limited borrowing for productive purposes, but he saw much of the government borrowing in the 1920s as being for unproductive or misguided projects that would be a long-term burden for the taxpayer. Norris's comments on the Treasury accounts for 1925–26 are typical. He pointed out that the accounts showed a substantial deficit for the year and argued that this was due largely to high interest payments for non-productive loans. He noted that,

There have been also large expenditures of loan moneys on works which are not earning the interest payable on the loans ... Last year the shortage in the earning power of the State's capital investments to meet the interest bill was £1,349,181. If the year's loss on Discharged Soldiers' Settlement and Electricity Supply operations had been included in the expenditure, and if adequate provision had been made for the wastage of Railway capital, the deficiency would be substantially more than the accounts show. From the expenditure of loan moneys there is an indirect benefit which conjecture may exaggerate or depreciate, but the debt and interest burden is definite and precise. When loan moneys are expended on undertakings capable of earning the equivalent of the interest paid to the State's creditors, no additional burden is placed on the taxpayers who may benefit from the creation of public assets to assist the production of wealth. When the loan expenditure is on works and services that are only partially productive or earning no interest, taxation or other sources of revenue must be increased or expenditure reduced.

The areas of loan expenditure that particularly concerned Norris were the railways and land settlement, which between them accounted for well over half of all government borrowing.

The railways were by far the largest government instrumentality in the years between the wars, with 29,000 employees in 1925 and railway revenue making up over thirty-five per cent of consolidated revenue. However, railway revenue peaked in 1926 and fell steadily in

the following years due partly to the depression, and more fundamentally to the growth of competition from road transport. From this time the railways experienced growing losses tempting both the railways and the Treasury to resort to unorthodox accounting to disguise the true position — meeting stern opposition from the Auditor-General. Throughout the 1920s John Norris fought a running battle with the railways commissioners over their practice of using loan funds for maintenance and working expenses and their failure to allow for depreciation in their accounts. He drew attention to these issues every year in his annual report and directed a continual stream of queries to the railways commissioners on particular issues. For example, in 1921 Norris endorsed a memo by the railways auditor, J. T. Tatchell, arguing that twenty-four sign boards erected in gangers' huts at a cost of £10 each should have been charged to working expenses not capital expenses as they did not enhance the capital assets of the railways: 'They are de facto Honor Boards, the erection of which, no doubt, gives great satisfaction to the Gangers and Laborers engaged on the particular length, but at the same time the value of the Railways' assets has not been increased.'¹⁶ On this occasion the railways commissioners conceded the point and modified the accounts, but this did not prevent the issue of the misuse of loan funds arising every year.



Staff 1928. Future Auditor-General Redvers Gillard is fourth from the left in the back row.

Similarly Norris had no joy in his attempts to persuade the railways commissioners to allow for depreciation in their accounts. Giving evidence before the Committee of Public Accounts in 1923 he 'pointed out that he had drawn attention to the need for reserve funds to

allow for wastage of assets every year since his appointment as Auditor-General'.¹⁷ Twelve years later he was still preaching the same message:

Expert audit officers and accountants have recommended that proper and adequate provision should be made for depreciation and obsolescence. They found that a large proportion of the capital shown in the accounts was not represented by substantial or income earning assets. The wastage of capital is continuous and until the finances are in a position to provide for the annual loss it must be clearly understood that the accounts are not correct statements of the year's operations.¹⁸

Harold Clapp, the Chief Commissioner of the Railways, had a forceful personality and few politicians or public servants dared to oppose his wishes. A columnist in the *Herald* noted that 'Mr. Norris is the only state servant I know who occasionally "tells off" Mr. Clapp', although he was still not able to force the railways to bring its accounts up to his ideals.¹⁹

While John Norris was far from happy with the railways accounts, he criticised the land settlement schemes of the 1920s as 'misconceived' and 'doomed from the outset'. The policy of buying large estates, subdividing them and selling smaller blocks to would-be farmers on generous terms began in 1909 with the establishment of the Closer Settlement Board. During the First World War the government greatly expanded the scheme, making the terms more generous to reward returned servicemen for their wartime sacrifices. The 'Discharged Soldiers Settlement Scheme' was designed at a time of high prices for agricultural products and the block sizes and repayment terms were based on the assumption that prices would remain high. Unfortunately, returns to farmers fell steadily through the 1920s and collapsed completely during the depression years. This not only ruined many soldier settlers (like Mr Noonan of the Audit Office), but also destroyed the financial base of the land settlement scheme.²⁰

In his early years as Auditor-General, John Norris was frequently highly critical of the sloppy financial management of the Closer Settlement Board. For example, in 1921 he noted that the board had overdrawn its bank account, illegally incurring substantial interest charges, and in 1924 he complained that many of the entries in the board's accounts were made in pencil pending final adjustment.²¹ The senior auditor responsible for the audit of the Closer Settlement Board invariably made detailed criticisms of the poor accounting practices and recommended radical changes.

More serious than bad accounting was the fundamentally flawed financial structure of the soldier settlement scheme. As the Auditor-General pointed out in his 1924 annual report, the State was borrowing money at five and a half per cent interest, while the loans to the settlers were capped at five per cent for thirty-six years from 1918. With administration costs coming to about one per cent, the scheme had no chance of becoming self-funding. As farm prices fell and growing numbers of settlers fell into arrears with their payments, the financial problems of the Closer Settlement Board became a black hole in the Treasury accounts.

In 1929 the Audit Office carried out a detailed study of the finances of the Closer Settlement Board. The report again pointed out the basic flaws in the scheme and noted that ‘it is very apparent the Fund is insolvent and has been insolvent for some years’. Every aspect of the board’s accounts was disastrous: its loan liability was over £24 million, while the book value of its fixed assets (mainly land) was less than £20 million and falling fast as land values sank in the depression. Well over half the settlers were in arrears in their repayments and many loans had been written off completely. Of the total repayments made by settlers of £4.5 million, less than £175,000 had been applied to the reduction of the capital liability, with the rest going toward interest payments and administrative expenses. Further, the report showed that the board had been using loan money intended for the purchase of land to make interest payments, as well as making highly irregular and artificial sales of land between divisions of the board’s operations — leading Norris to observe, ‘There should be no necessity for artifice in departmental or state accounts’.²²

By 1931 the financial failure of the land settlement scheme was so complete that Norris felt able to voice his long-held view that the scheme had been doomed from the start, quoting one of his favourite authors, the classical economist C. F. Bastable, to show that the purchase and sale of land by the state was ‘open to overwhelming objections’.²³ The following year he suggested that there had been too little thought put into the scheme when it was set up as, ‘It was evident from the earliest years of the operations that the public revenues were insufficient to finance the losses and requirements of the settlers who had little or no capital of their own’. He argued that the scheme had been beyond the capacity of the State to support and should never have been implemented.²⁴

John Norris was always at pains to point out the distinction between productive and non-productive loans. The case he pointed to as the best example of the proper use of loans was the State Electricity Commission (SEC). Founded in 1919, the SEC was the great success story of public sector business activity in the inter-war years. Under the inspired leadership of Sir John Monash the SEC boosted Victoria’s electricity generating capacity and distribution network many times over, ran at a profit from 1927 and earned the praise of the Auditor-General for its proper provision for depreciation and ability to service its loans.

However, the SEC did not easily earn the approval of the Auditor-General. During the early 1920s there were many clashes between the Audit Office and the SEC as the commission tended to ignore correct accounting procedures in its eagerness to get its massive works under way. In September 1923 John Norris wrote to Monash,

Dear Sir,

I am submitting for your information and reply the reports of the Auditor of the Commission’s offices, and a report by the Chief Inspector, after the investigation by him of the matter referred to by the Auditor.

I regret to observe that there are substantial reasons for the Auditor’s complaints. I admit that it is too early to expect the accounting system to be quite satisfactory, but more effort must be made towards tightening up the supervision and instituting internal checks.

I must also direct your attention to the delay in closing and balancing the accounts. This is a matter of serious importance, and clearly demonstrates that if the system is not faulty the officers are not familiar with their duties.

I shall require further explanation with regard to the amount of £10,757:6:5 which has been written off the value of the stores at Yallourn. The explanations furnished are not satisfactory.

I must respectfully insist that the requirements of the Audit Officers be met, if it is considered that they cannot be complied with, I should promptly be advised of the reasons.

I am astonished to learn that a large number of audit queries have been ignored by your accounting staff. Will you be good enough to give directions that they must be answered or explanations be forwarded why replies are not forthcoming.²⁵

As late as 1931, although the Auditor-General expressed approval at the financial stability of the SEC, he was still not satisfied with the presentation of the accounts. On 23 September 1931, Norris made notes of a lengthy discussion with Monash. He told Monash that he was unhappy with the form of the accounts as they did not clearly provide the information Parliament and the public required on the workings of the SEC. The accounts were not in a normal commercial format and, 'Until improvements are effected in the way suggested I cannot be expected to certify that the annual accounts clearly reflect the financial operations of the Commission.' He had previously allowed the accounts to pass as the SEC was a new venture, the sources of expenditure and income had not been clearly defined and it was making large capital investments, but the time had come when the accounts must be properly presented.²⁶ Receiving this lecture from the Auditor-General was one of Sir John Monash's last acts as Chairman of the SEC — he had a heart attack on 29 September and died on 8 October 1931.

Financial success stories like the SEC were rare among Victorian public sector enterprises in the 1920s. Only the SEC, the Melbourne and Metropolitan Tramways Board, the Maffra beet sugar factory and a few other minor government enterprises were financially stable. The railways, land settlement, country water supply, the State coal mine at Wonthaggi, the government cool stores at Victoria Dock, the Geelong Harbor Trust and many others were all heavy burdens on the State, relying on large doses of loan funds to remain solvent. As John Norris repeatedly warned, the prosperity of the 1920s could not last indefinitely and loan funds would not always be so readily available.

The crisis in Victoria's public finances, which Norris had long foretold, began in 1929. With the onset of the depression there was a sharp fall in government revenue, while interest payments and the demand for government expenditure on unemployment relief and other social services kept rising. By the middle of 1930 the Labor government of Ned Hogan began to adopt unorthodox methods to keep the machinery of government functioning. Inevitably this led to a clash with the Audit Office. On 21 June 1930 Norris wrote to Hogan:

It is observed –

I. That on forty days from 1/3/1930 to 17/6/1930 the Treasurer has not had sufficient cash in the Public Account to meet the Orders issued for payments by the Banks as directed by Section 33 of the Audit Act.

II. That the Treasurer has been operating on overdrafts during this period ranging from £20,934 to £246,610.

The Treasurer has been advised by the law officers of the Crown that the powers conferred by the *Treasury Bills and Advances Act 1922* (No.3200) do not legally support this practice of obtaining temporary financial accommodation from the Banks.

It may be viewed as a serious infringement of Constitutional practice for the Executive to obtain financial assistance from unauthorised sources and by Ways and Means other than those prescribed by Parliament.

As the duty is imposed on the Auditor General to report all illegalities to the House he is of the opinion that the Treasurer's reasons should be given and that the matter should be dealt with by Parliament at the earliest opportunity.²⁷

Dissatisfied with the Treasury's response to this letter, Norris wrote a memorandum to the Under-Treasurer with the threat that he would not be able to certify to the Governor, 'that the sums above mentioned are now legally available'.²⁸ Norris believed that the government should give up dodgy accounting and sharp practices, and accept that it could only overcome the financial crisis by reducing expenditure and/or increasing taxation. He did not hesitate to set out the policies that the government had to follow:

To effect a balance within a reasonable time is still practicable, but it will require an all round reduction in the expenditure ... It is inevitable that there will be anomalies in any scheme adopted to reduce the expenditure, but the position has become too critical for adjustment of the finite differences. Such retrenchment as is now necessary never has been and probably never will be governed by the rules of equity. Measures that are more efficacious than equitable are justifiable provided that they will not only check the drift in the finances but will furnish a check against departures from the sound principles which should govern national finance. It is as essential that prudence should be observed in periods of affluence as in times of financial depression.

Financial reforms and reduced expenditures will inevitably curtail the generous financial assistance which has in the past been rendered by Governments towards promoting social services and for the development of the State's resources. It may be expected, therefore, that private enterprise will in the future have more scope to exercise its initiative in exploiting the potential wealth of the State.²⁹

While to Norris these policies were self-evident, they were in conflict with the official policies of the ALP, which advocated an expansionary economic policy and the socialisation of the means of production. As an expansionary economic policy involved deficit financing, and the socialisation of the means of production would lessen rather than increase the role of

private enterprise, Norris's policy prescriptions appear to have been highly political. However, in the turmoil of the disintegration of the State and Federal Labor governments and with the general acceptance of the 'Premier's Plan', Norris escaped the criticism normally given to Auditors-General who become involved in political controversy.

The conservative coalition government that came to power in May 1932 committed itself to a 'prudent and financially responsible' economic policy in accord with Norris's views. Although the Auditor-General still found details to criticise, from 1932 until his retirement in 1937 he expressed general approval of the direction of public finances. The government reduced expenditure and borrowing, increased taxation and took steps to restructure the finances of the railways, the Closer Settlement Board and other disaster areas.

While John Norris approved of the more cautious financial policies adopted in the mid-1930s, he believed that there had been a weakening in Parliament's control over expenditure in this period. In particular he feared that precedent and the Crown Solicitor's opinions were leading to a situation in which Parliament had 'practically no control over the allocation of the moneys available for unemployment relief nor does it regulate the maximum expenditure'. He pointed out to the Parliament that 'The expenditure [on unemployment] is not subject to the restrictions and supervision prescribed by the Audit Act.'³⁰ He also expressed concern that the executive had gradually lessened Parliament's control over the public account through the use of supplementary estimates, the growth of funds separate from the consolidated revenue and other means that he regarded as essentially subterfuges to avoid honest and accountable public finance.³¹

In spite of the emphasis on the Treasury audit and wide problems of public finance in the Norris era, most of the Audit Office staff still spent their time carrying out one hundred per cent transaction audits of the more than 700 government and semi-government instrumentalities covered by the Audit Act. From the tiniest rural water trust to massive government businesses like the railways and the SEC, the auditors pored over every receipt, ticked off every voucher and reconciled every account. In this period the Audit Office greatly extended its policy of continuous audits of major government departments and instrumentalities. When Norris became Auditor-General, only the railways had an on-site auditor, but by 1927 auditors were located at the Board of Works, the SEC, the Country Roads Board, the Lands Department, the Taxation Office and the Motor Registration Branch. This policy had many advantages as full-time, permanent auditors were able to gain a complete understanding of the operations of their organisation and were in a good position to insist on sound accounting practices. On the other hand, there was a tendency for the organisations to become lax in their internal auditing, relying entirely on the external auditor, and there was also the possibility that the auditor would become too closely identified with the organisation and be reluctant to criticise it.

There are many fascinating and amusing audit reports from the Norris era, many of them coming from Don Cameron, one of the great personalities of the office in this era. 'Titch' Cameron was short, outgoing and confident, a dapper dresser easily identifiable by his flamboyant bow ties. In August 1928 Don Cameron made the first audit of the Film

Censorship Board, where he found that the cash book did not balance, the receipt forms were irregular and many other problems. He wrote:

It must be considered that the work of Mr Palethorpe [secretary of the board] was not well done as the above recital of the discrepancies shows. Lack of promptitude, indifference to regulations, and a general neglect characterised his work. The grave fact of audit is that money was received and not accounted for; and the gravity of the situation is deepened when it is observed that a number of collections, only ultimately brought to account, were held by Mr Palethorpe and not even banked, whilst at the same time, he also remained regardless of his great obligation to pay the same weekly to the Treasury ... Mr Palethorpe's conduct in this position is a challenge to conscientious and obligatory service so I must report his unsuitability for a position of responsibility with Public funds.³²

Mr Cameron appears to have been an outstanding audit inspector. In late 1930 he was seconded to the Melbourne Hospital to make a special report on the operations of the outpatients' department. He made a very wide ranging report on hospital practice going well beyond traditional financial accounting to look at the overall efficiency of the outpatient department and its role in the structure of the hospital. Cameron noted that the final result of the costing was reached 'with a great deal of reliance upon approximation, assumptions, postulation and the opinions of those whose knowledge of monetary relations and the power of figures does not warrant in the main too great a confidence'.³³ Following the completion of the report, the secretary of the hospital wrote to the Auditor-General:

Hospital work is a special branch of record keeping and heads of Departments are not keen on having their eccentricities in this matter laid bare. However, several of these people have since expressed to me their surprise at your officer's knowledge of Hospital matters and the penetrating questions put to them in regard to the running of their Departments. Now that the costing is practically finished (and in spite of the immense amount of extra work involved) I look back with a great deal of pleasure to my association with Mr Cameron who is not only a very able and efficient Accountant but a gentleman who has the gift of doing his work in a very pleasant manner.

Gwen Marks worked with Don Cameron at the State Taxation Office and recalls that he was a keen amateur actor and producer. Aspiring actors would often come in to the tax office to try to get parts in his plays. It was an interesting break in work routine when they did their audition acts in front of everyone in the office. Another story told of Don Cameron revolves around his liking for a cup of tea while auditing. On one occasion when he was auditing the accounts of the Springvale Crematorium, he was disappointed the office girl there did not offer him any tea. As she walked past the room where he was working he jokingly said to her, 'I've got a bone to pick with you.' This caused an extraordinary reaction as the girl burst into tears and confessed to stealing money. She thought Cameron must have discovered her defalcations, when all he wanted was a cup of tea. She would never have been caught if she had given Don his cup of tea.

In 1931, A. Teague, the auditor of the Lands Department, reported on the case of Inspector E.F. Allinn of the Vermin and Noxious Weeds Branch. Allinn had the practice of

serving notices on people for the destruction of noxious weeds and then offering to clear them himself as a private contractor. He would employ the department's workers to carry out the work for him and pay them with departmental money he had stolen. Allinn disappeared when the auditor arrived to check his books and was never seen again.³⁴

Many unusual cases came to the attention of the Audit Office. One that demonstrated John Norris's ability to carry out his role without fear or favour occurred in his early days as Auditor-General. In the audit of the accounts of the Victorian Agent-General in London, it was noted that there was 'an amount of £38,520 17s 6d, representing payments to and on behalf of the Cockatoo Preserving Company Ltd., for which no provision had been made'. The Treasury knew nothing of the payments, so Norris wrote a stern letter to the Agent-General, Sir Peter McBride, demanding an explanation — but as Sir Peter was a close friend he signed the letter, 'my kindest regards to yourself and Lady McBride'. It appeared that Sir Peter had accepted consignments from the Cockatoo Preserving Company (a company from Cockatoo that made jams and preserves rather than preserving cockatoos) to sell in Britain, but the market had crashed and he had illegally used government funds to cover his mistakes. Norris's friendship with McBride did not prevent him reporting fully on the matter and effectively ending McBride's career.³⁵

The Audit Office was responsible for ensuring the correct payment of government pensions, usually a tedious but straightforward task. However, it was faced with a dilemma following the death of Henry St Clair, a railway employee, when two women, both claiming to be his wife and both presenting valid marriage certificates, lodged applications for widow's pensions. It appeared that neither woman was aware of the existence of the other. The Audit Office determined that only the first wife was entitled to a pension. Even though there were children to the second marriage, the law would not allow both wives in a bigamous marriage to receive pensions.³⁶

From 1919 the Audit Office had responsibility for auditing technical schools (though not primary or high schools). Although there were only twenty-two technical schools at this time, this proved to be an unwelcome addition to the office's workload as they generally kept their accounts poorly and were extremely reluctant to pay any audit fees. The frustration of the Audit Office is reflected in this letter from Norris to the Director of Education in April 1932:

The report of the Auditor on the Caulfield Technical School discloses a state of affairs that I cannot believe will be tolerated in an institution which is subject to laws and regulations in common with other technical schools for the proper control and administration of the finances. The recommendations made by the Audit Office in previous reports are not merely ignored, they are treated with contempt. The Council and the Principal of the school have been given ample opportunity to adopt methods for the better supervision and good government of the institution. It may be that they are incapable, but it is evident that they will not observe the regulations and that they appear to resent instructions.

It was undoubtedly largely due to the lax supervision and the indifference shown generally by those responsible for the school's activities that the Consolidated Revenue will be required to

make good misappropriations amounting to £1,037. It might have been reasonably expected that the loss of this money would have impressed the Council and Principal with the importance of adopting recommendations for the improvement of their methods and that they would realise the wisdom of observing instructions for the proper conduct of the school. It has, however, been ineffective.

The latest report from the Auditor demonstrates that more drastic measures are necessary to ensure a recognition from the governing body of its duties and responsibilities.³⁷

In June 1931 the Auditor-General queried why he was not informed by the State Rivers and Water Supply Commission of a defalcation found by internal audit. One of the commissioners stated that he thought it was unnecessary, but noted that ‘as the Auditor-General desires to have such a case reported this course will certainly be followed in future should necessity arise’. To which Norris replied, ‘**The only desires which affect the actions of the Auditor-General are those prompted by the laws and regulations governing Public Accounts**’.³⁸ This comment is a fitting summary of the career of one of Victoria’s outstanding Auditors-General.

¹ *VPP*, 1919, vol. 1, p. 718.

² *Herald*, 6 October 1927.

³ W.K. Anderson, *Roads for the People: a history of Victoria’s roads*, Melbourne, 1994, p. 48.

⁴ Ray Proudley, *Circle of Influence: a history of the gas industry in Victoria*, Melbourne, 1987, pp. 122–3, 131.

⁵ Norris to Professor D.B. Copland, 27 July 1934, PRO VPRS 2043, item 20, no. 150.

⁶ I am grateful to Duncan van Reyswoud, John Norris’s great-nephew and the historian of the Norris family, for providing me with much useful information on Norris and his career.

⁷ PRO VPRS 2043, item 5, 28 February 1919.

⁸ At this time ‘Chief Clerk’ was the senior public service appointment in the Audit Office. Under the terms of the Audit Act, the Chief Clerk acted as deputy Auditor-General in the absence of the Auditor-General, but this was not a public service appointment. Later the position was retitled, ‘Chief Clerk and Chief Inspector’, before being formally changed to ‘Deputy Auditor-General’ in the early 1960s.

⁹ Norris to the Auditor-General of Western Australia, 17 December 1936, PRO VPRS 2043, item 22, no. 253.

¹⁰ Norris to the Public Service Commissioner, 27 January 1925, PRO VPRS 2043, item 11, no. 20.

¹¹ PRO VPRS 2043, item 12, no. 28.

¹² Norris to Chief Secretary, 7 February 1930, PRO VPRS 2044, item 11 no. 30.

¹³ Cove to Chief Secretary, 18 July 1933, PRO VPRS 2043, item 19, no. 180.

¹⁴ Norris to the Under Secretary, 3 March 1927, PRO VPRS 2043, item 13, no. 49.

¹⁵ Norris to Premier, 19 January 1930; Premier to Norris, 24 January 1930, PRO VPRS 2043, item 11.

¹⁶ Memorandum by J.T. Tatchell, 20 December 1921, PRO VPRS 2044, item 2.

- ¹⁷ *Argus*, 27 February 1923.
- ¹⁸ *Annual Report of the Auditor-General*, 1935, p. 15.
- ¹⁹ *Herald*, 6 October 1927.
- ²⁰ The most complete account of the First World War soldier settlement scheme is Marilyn Lake, *The Limits of Hope: Soldier Settlement in Victoria, 1915–38*, Melbourne, 1987.
- ²¹ Norris to Treasurer, 22 March 1921; Norris to Director of Land Settlement, 21 October 1924, PRO VPRS 2043, items 8 and 10.
- ²² *Report of the Auditor-General on the accounts of the Closer Settlement Board*, July 1929.
- ²³ *Report of the Auditor-General*, 1931, p.27.
- ²⁴ *Report of the Auditor-General*, 1932, p. 18.
- ²⁵ Norris to Monash, 18 September 1923, PRO VPRS 2043, item 9, no. 260.
- ²⁶ Notes on conference between the Auditor-General and Sir John Monash, 23 September 1931, PRO VPRS 2044, item 12.
- ²⁷ Norris to Hogan, 21 June 1930, PRO VPRS 2043, item 16.
- ²⁸ Norris to Under-Treasurer, 13 October 1939, PRO VPRS 2043, item 16.
- ²⁹ *Report of the Auditor-General*, 1931, p. 15.
- ³⁰ *Report of the Auditor-General*, 1935, p. 12.
- ³¹ J.A. Norris, 'Finance and other matters', *Public Service Journal of Victoria*, 25 October 1938, p. 91.
- ³² Report by D.K. Cameron, 16 August 1928, PRO VPRS 2044, item 10, no. 414.
- ³³ Report by D.K. Cameron, January 1931; Secretary of Melbourne Hospital to Norris, 21 January 1931, PRO VPRS 2044, item 12, nos. 27 and 152.
- ³⁴ Report by A. Teague, 17 December 1930, PRO VPRS 2044, item 12, no. 126.
- ³⁵ Norris to McBride, 21 March 1920, PRO VPRS 2043, item 7; *Report of the Auditor-General*, 1920, p. 6.
- ³⁶ Norris to Under-Treasurer, 25 March 1930, PRO VPRS 2044, item 11, no. 196.
- ³⁷ Norris to Director of Education, 15 April 1932, PRO VPRS 2043, item 18, no. 73.
- ³⁸ Commissioner Cattanach to Norris and Norris to SRWSC, June 1931, PRO VPRS 2044, item 12, nos. 275, 279.
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11



Tension at the top – the era of Edwin Peverill and Wilton Cove

One of John Norris's final actions as Auditor-General was to write a glowing reference in support of Wilton Cove's application to succeed him:

Mr W.H. Cove ... has the knowledge, training and experience, as well as the other qualities so essential for the performance of the duties ...

About 10 years ago I selected Mr Cove from a number of the most capable officers in the Audit Office as an understudy to myself. I have directed his reading and inculcated methods of investigation and analysis which I had adopted after long experience in the Treasury.

During my long career in the service I can unhesitatingly say that Mr Cove is one of the most capable officers with whom I have been associated. He has had the advantage of a sound education, an analytical mind, and a natural aptitude for Audit and Treasury work.

I am aware that it is the desire of the Government to appoint the person who will serve the State in this office without fear or favour. This requires an official whose qualifications cannot be challenged. My motive in advising the appointment of Mr Cove is also sincere and prompted by my natural anxiety to maintain the high standard of efficiency to which the Audit Office in Victoria has been raised.¹

In spite of Norris's firm recommendation, Wilton Cove did not become Auditor-General. In November 1937 the government appointed Edwin Peverill as the new Auditor-General, a position he held until his retirement in 1957, making him the longest-serving Victorian Auditor-General. Throughout this period Wilton Cove remained chief clerk, barely disguising his simmering resentment of his superior.

EDWIN PEVERILL

Born in South Melbourne in 1892, Edwin Peverill joined the Commonwealth Public Service in 1908. He served with the AIF during the First World War and then returned to study at the University of Melbourne, where he graduated with degrees in arts and commerce. In 1923 Peverill joined the Victorian Public Service, working in the State Taxation Office. He rose rapidly through the ranks, being in turn officer in sub-charge of assessors, investigator of taxpayers' accounts, officer in charge of company assessments, officer in charge of investigators, and deputy commissioner of taxes. While at the tax office he was commended for his work on prosecutions, disputed assessments and the preparation of taxation bills.

Peverill had close ties to the professional accounting bodies, serving as Victorian president of the Commonwealth Institute of Accountants, and he was also president of the Institute of Public Administration.



Edwin Peverill, Auditor-General, 1937-57.

The senior staff saw Edwin Peverill as 'a strong, hard man', but 'a man you could like', even though they were probably a bit scared of him. The junior staff found him 'remote but fair'. By custom the junior female staff took it in turn to make morning tea and take it into the Auditor-General, and they thought he was shy and reserved, but very polite. Peverill had little regard for staff morale, believing, for example, that everyone should keep working till normal finishing time on Christmas Eve.

Eileen Bell, who joined the Audit Office after service in the Second World War, worked closely with Edwin Peverill as his secretary. She recalls him as a tall man who concentrated on work and never wasted time. ‘Good morning’ was followed by dictation for an hour or longer, and he seldom required a draft except in special circumstances. Although Peverill was often requested to talk on accounting matters, he never overcame his dislike of speaking in public and once remarked to Miss Bell that he was so nervous that he wished they would forget about him. He always appeared to be deep in thought and avoided conversations in the lift or passageway.²

Edwin Peverill’s health was poor throughout his tenure as Auditor-General. He was a heavy smoker and suffered from severe duodenal ulcers. In 1946 he collapsed and was in hospital for six months, giving up smoking when his doctor told him, ‘If I were you, I’d be too scared to smoke.’ However, when treatments for duodenal ulcers improved in the 1950s he took up smoking again.

Edwin Peverill retired in 1957 and, despite his previous poor health, enjoyed a lengthy retirement before his death in 1977 at the age of eighty-five.

The years in which Edwin Peverill served as Auditor-General were years of quiet stability in the Audit Office. This was partly due to the relatively healthy position of the state’s finances during most of this period; Edwin Peverill was not faced with the crises his predecessor had to confront in the 1920s and 1930s. John Norris had done much to guide the government in restoring public finances in the mid-1930s and Albert Dunstan, Premier of Victoria from 1935 to 1945, completed the return to financial stability. Geoffrey Blainey has described Dunstan as ‘a remarkably able administrator — almost a lick of every second stamp in his attention to detail — and he pruned any sign of extravagance’,³ and under his administration, the Audit Office found little to complain of in the actions of the government. In addition, the Second World War led to a shortage of qualified staff in the office that lasted into the 1950s and this would have made any innovative projects difficult to implement even if there had been the will to undertake them. But Edwin Peverill was no innovator and he proposed no changes of any significance in the work of the office. Finally, the tension between the chief clerk and the Auditor-General inevitably made the introduction of any changes almost impossible. Wilton Cove maintained a vice-like grip on the running of the office and, consumed with his disappointment, resisted the slightest alteration in routine.

Edwin Peverill brought a very different style to the office of Auditor-General than had his predecessor. Whereas John Norris had been very public in his comments and criticisms, Peverill preferred to resolve problems through personal discussion or direct correspondence. Only matters that could not be resolved in this way, or were not accepted by the audited party, would be reported to Parliament. This approach was followed by the three future Auditors-General who worked in the office in Peverill’s time, Redvers Gillard, Arthur Gardner and Bruce Hamilton.

Edwin Peverill also brought a change of focus to the work of the office. To John Norris (and Wilton Cove), the Treasury audit was the primary function of the Audit Office — although Norris saw it as a means of influencing economic policy, while Cove appears to have seen it as an end in itself. However, Peverill placed more emphasis on the prevention of fraud and he moved staff away from the Treasury audit, sending them to fixed location audits of the major government departments. Coming from the tax office he had a background in examining documents and believed that the more you examined the more likely you were to find something wrong. Consequently the audit involved a one hundred per cent check of every transaction in the public sector. Peverill believed that auditors located permanently in the big departments and authorities would be able to get to the root of their accounts, preventing fraud and ensuring orderly and accurate accounting.

Wilton Cove was the dominant presence in the Audit Office in this period, keeping an eagle eye on the day-to-day running of the office, allocating all audits and maintaining a firm discipline over the staff. Cove was a man of strict routine. He would come in at ten past nine every morning, hang up his hat, check his fob watch with the little clock over the mantelpiece in his office and fix the time on the office clock. The office assistant would be sitting at his desk with the letters arranged just as Cove liked them and, when Cove gave the word, he would begin to open the mail. Cove insisted that note-sized envelopes be carefully opened on three sides so that he could use them for writing his memos. Everyone was scared of seeing one of these distinctive memos land on his desk. He always kept his door open and if any staff member walked past more than once or twice in a day, or took too long at morning tea, he would call them in, ask if they had got the wanderlust and tell them to get back to work. Cove spent a lot of time standing with his hands behind his back looking down Collins Street. Bill Bird was in the office next to Cove and they used to stand side by side with hands behind their backs looking out the window. Once Cove said, ‘Look at those blokes down there — they’re supposed to be digging up the road, but I’ve been watching them for three quarters of an hour and they haven’t done a thing.’⁴

Many staff of the Peverill-Cove era recall the tension between the Auditor-General and his deputy. For example, all the field staff came in to the office on Saturday mornings to report, collect instructions and so on and they all had to say ‘Good morning’ to Mr Cove. However, if they went in to speak to the Auditor-General, Cove would demand an explanation: ‘Why did you need to see that over there?’ he would ask, jerking his thumb contemptuously across the passage to the Auditor-General's office.

Fortunately for the efficient functioning of the Audit Office, Peverill and Cove were able to work reasonably well together in spite of their personal differences. Peverill did not interfere with Cove’s control of the office and the Treasury audit, and Cove co-operated with Peverill in other matters. In June 1938 Cove visited the Audit Office in Sydney while on holidays with his wife and wrote to his New South Wales counterpart: ‘I gave Mr. Peverill as complete a word picture as I could of your system as outlined to me, and he has agreed to accompany me back to Sydney after the annual report has been dealt with, so that we can both become fully acquainted with your methods.’⁵ Bruce Hamilton recalls that ‘The two

men, both very strong minded, settled into an unexpressed arrangement whereby Cove administered the Appropriation audit and Peverill involved himself in the inspection work outside the Treasury accounts.’ Cove continued to administer the office as he had done under Norris, though perhaps with even greater diligence to show Peverill, in Cove’s oft-expressed rhetorical question, ‘Who is running this bloody office?’

By the late 1930s, after a decade of penny pinching, the physical condition of the Audit Office was becoming shabby and run-down. Office reports tell of threadbare carpets, worn linoleum, ancient furniture, leaking roofs, dangerous electrical fittings and rat infestations. The lights had been installed in 1906 and did little to supplement the poor natural light of the old Treasury building. The ancient power points were inadequate both in number and safety. As the number of electrical appliances needed in the office increased, they were plugged into the light fittings or lengthy extension cords snaking along the corridors. When the office took the major step of buying a ‘Remington Computing Accounting Machine’ to mechanise the task of posting ledgers, there was a lengthy delay in getting the machine into operation as there was no power point in the room. Even the Auditor-General suffered. In June 1938 he sent a memo to the secretary of the Public Works Department:

The Auditor General has found that the chair in his room is unsatisfactory, and causes considerable personal discomfort, as well as risk to his clothing. It would be appreciated if the Secretary would be good enough to give instructions for the replacement of the present chair.

The chair has been examined by Mr. Curtis [of the PWD], who is in a position to furnish a report as to its present unsatisfactory condition.⁶

The problems of run-down offices and equipment faded into insignificance in September 1939 with the outbreak of the Second World War. While the First World War had had little impact on the work of the office, the Second World War caused great disruption and difficulty. Shortly before the outbreak of war, the Auditor-General advised the secretary of the Premier’s Department of the staff situation in the Audit Office. There were sixty officers employed (fifty-two males, eight females), six were in the army or navy reserve, and there were thirty-five officers aged between eighteen and forty-five, who were liable for military service if war broke out. He concluded that, ‘It is not considered that any officer is so essential as to justify an application being made for exemption from military duty, but the absence of four second class officers ... would seriously inconvenience the work of the office.’⁷

In the event, the office lost most of its junior male staff, although the Auditor-General was able to retain a core of qualified staff by requesting exemptions from the call-up. For example, in January 1942, Edwin Peverill wrote to the military authorities:

Mr. A. J. A. Gardner is employed on the staff of this office. He is a Bachelor of Commerce, and is engaged on the audit of the receipts and disbursements of the Taxation Office and the Comptroller of Stamps. He is 28 years of age, and is engaged in a reserved occupation. The work upon which he is employed is of a highly important and technical nature, and is essential

in connection with the collection of revenue for war purposes. His exemption from military service is desired.⁸

Similar exemptions were granted to another future Auditor-General, Bruce Hamilton, and several others who had completed their accounting qualifications, but by 1944 twenty-one officers were in the services and there were few men of military age left on the staff.

The first member of the Audit Office staff to join the forces was Alan Vanderstoel, a member of the naval reserve. Vanderstoel had a distinguished naval career, finishing the war as a Lieutenant-Commander. Alan Meggs had joined the Audit Office staff at the age of sixteen in 1940. He hoped to join the RAAF, but after the fall of Singapore in February 1942, all the Air Force reservists were called up for the army, so he spent six months in army camps before being released to join the Empire Air Training Scheme. By 1944 he was serving with Bomber Command, when he was shot down over Germany on his thirty-third mission, spending his twenty-first birthday as a prisoner-of-war. Of other Audit Office clerks in the services, Bill Sharpe was killed in action while flying for Coastal Command over the Atlantic, while Colin Gibson was listed as ‘missing in air operations over Germany’ in January 1944.



Staff 1946. Back row, L-R: Peter Hamblin, Bruce McDonald, Kevin McGuinness, Alan Ashman, Jim Jones, Tom Keogh, Jack Richards, Bob Smith, Frank Turner, Frank Scruby, Jack Harris; middle row, L-R: Vera Hogarth, Anna Rice, Alec Nance, Harry Thompson, Joe Cahill, Alan Vanderstoel, Wilton Cove, Edwin Peverill (Auditor-General), Enid McCorkell, Joyce Manton; front row, L-R: Joan Currie, Pat Fuss, Gwen Marks, Alan Bohn, John Oakley, John Stephens, John Campbell, Bill Bird, Eileen Bell, Pat Rorke (nee Walsh), Carmel Murphy.

The vacancies on the Audit Office staff during the war were filled primarily by women, most of them juniors straight from school, but also some married women, who were barred from the public service in normal circumstances. By 1944 there were over thirty women on the staff and, for the first time, they were employed in tasks other than ‘machine computing’ and typing, with a majority of them carrying out normal auditing tasks. In February 1944 the Auditor-General reported to the Premier’s Department:

In order to make the fullest use of the available qualified staff, steps were taken to detail two trained female assistants to undertake certain routine duties in connection with various country audits, and the high standard of the work performed by these ladies, particularly in regard to the accounts of Waterworks Trusts and of District Offices of the State Rivers and Water Supply Commission, has relieved the inspecting staff of some of the detailed audit functions, and has enabled them to cover a wider field of operations, as well as to concentrate on matters of principle.⁹

By the end of 1944 women were doing most of the work for many of the smaller audits such as the waterworks trusts, courthouses and technical schools.

Occasionally the officials in these institutions found it difficult to accept that a woman could do any audit work and failed to give them the co-operation demanded by the Audit Act. In April 1943 the Winchelsea Shire Clerk complained to Wilton Cove that Gwen Cunningham, one of the first two women to travel alone to country audits, had arrived unannounced at an inconvenient time. Cove was resolute in his support for Miss Cunningham, reminding the Shire Clerk of the requirements of the Audit Act and concluding, ‘It will be expected that audit officers will on future occasions be suitably accommodated, and that their visits will not be regarded as a matter of convenience.’¹⁰

However, although the women staff employed during the war received a high level of support from the Auditor-General and the chief clerk, their youth and lack of training placed great pressure on the remaining qualified men. Edwin Peverill explained the situation in a letter to the secretary of the Premier’s Department in December 1944:

It is necessary to invite your attention to the serious position of the staff, particularly with regard to Fifth Class Clerks. Following the entry of Japan into the present conflict all Fifth Class Officers who had not previously enlisted were called up for military service, either immediately or on attaining the age of 18 years, and I have endeavoured to carry out their duties with the assistance of Female Clerks. I am most appreciative of the work done by the females, most of whom are very young, but it will be understood that they do not possess the knowledge and experience in accounts that had been acquired by the permanent clerks, and that they lack the technical skill which the study of accountancy and its practical application to the audit function has produced. It has, therefore, only been possible to utilize their services in routine or mechanized work, and to limit their responsibilities accordingly. This limitation has placed a much greater strain on the remaining staff to maintain the high standard required, but although every effort has been made by me to reduce the work without impairing efficiency, it

is found that the skilled technical officers are not able to cope with the duties required of them.¹¹

One consequence of the staffing problems during the war was that some small audits were deferred, while others were done in only a superficial fashion. In 1943, for example, the Auditor-General commented in his annual report that there had been many difficulties in completing the audit of the State Rivers and Water Supply Commission. There had been lengthy delays in getting replies to queries and the commission had failed to carry out required improvements to its accounting systems. The Auditor-General noted that he would comment more strongly, but he was aware that the SRWSC also faced staffing problems and concluded that 'while the present state of affairs continues a satisfactory audit is not possible'.¹²

The Second World War also added to the workload of the Audit Office. In addition to its pre-war responsibilities, the office took on the audit of the Commonwealth Taxation Office's Victorian operations following the Commonwealth takeover of all income tax collections in 1942. The office also had responsibility for auditing many war related organisations such as the patriotic funds, the Red Cross, and many of the numerous government boards which began during the war ranging from the Manpower Regulation Board to the Chicory Marketing Board. Bruce Hamilton recalls that the Chicory Board had the first female accountant he had encountered and she kept the accounts in such good order that the audit took about ten minutes.

There were great celebrations following the end of the war. Wilton Cove and his good mates, 'Wardie' Ackers and Frank Scruby, went to a pub for a few beers and Bruce Hamilton recalls them walking up the corridor, with Frank, a great Anglophile, singing, 'There'll always be an England', and Cove (who was noted for his fine baritone voice) chorusing, 'Too bloody right'. Most of the clerks celebrated by throwing vast quantities of paper out of the windows.

The return to peace-time conditions saw the reimposition of the public service rules on the employment of women. In January 1946 the Audit Office was ordered to 'dispense with the services of women occupying positions in which men are normally employed'. Although the office attempted to retain some of its female staff by arguing that they occupied new positions, by 1948 the employment structure had returned to its pre-war structure, with the only women remaining in the office being employed as comptometrists or typists.¹³

For the men coming back from the war, there were no counselling or bridging programs to smooth their return to work. Alan Meggs returned from the trauma of a POW camp, reported to work and was sent straight to do the audit at Pentridge Gaol. This was a reflection of the attitude of the times, which was also shown in the Audit Office's orientation program for new staff. Following a brief interview with Wilton Cove, the newcomer was told, 'Here's the Audit Act; here's the Public Accounts and Stores Regulations — learn them.' The young man would begin work immediately and was expected to learn on the job: 'We'll soon find out if you can do it.'



An Audit Office social function in the late 1940s — saving on heating costs and protecting the environment by partying with their overcoats on.

It was not until the early 1950s that the work of the Audit Office recovered from the disruption caused by the Second World War. The office remained perpetually short of qualified staff and on several occasions vacancies had to be filled with unqualified applicants. The general shortage of qualified accountants also meant that auditees' accounts were frequently poorly kept, causing many delays. Further, there was a considerable backlog of audits which took years to work through. George Rorke recalls that most courts, trusts and schools were in arrears and when the auditors eventually arrived they would be confronted with bags full of old vouchers and receipts to work through. In one courthouse, the clerk of courts just emptied a chaff bag full of receipts on to the floor and left the auditors to sort through them. Jim Wenmouth recalls that his first country job was in Warragul in 1955. The courthouse there had not been audited since 1942, and, although the clerk of courts had kept everything, some of the old accounts were like lace from the silverfish. The audit took weeks and Jim's superior officer, John Whelan senior, approved of Jim selectively auditing the old accounts, provided he did the previous twelve months thoroughly.

During Edwin Peverill's term as Auditor-General, the public finances of Victoria were in a healthy state and caused little concern to the Audit Office. Under Albert Dunstan, the budget was consistently in surplus and government borrowings were minimal. The financial position was further improved during the Second World War when petrol rationing restricted private car use, leading to greatly increased patronage of the railways. The surpluses the

railways produced during the war years not only propped up the budget, but also enabled the railways to make proper allowance for depreciation, which the Audit Office had been demanding for many years.

Following the defeat of the Dunstan government in 1945, Victorian politics experienced seven years of instability, while the state's finances suffered from the effects of post-war inflation and a renewed decline in the financial position of the railways. At the same time government borrowings greatly increased, although in real terms they did not reach the level of the 1920s. These issues were noted by the Auditor-General, but, unlike John Norris, Edwin Peverill made no comment on the overall position of the state's finances. The only occasion on which Peverill spoke strongly on issues of public finance came when the government failed to follow the strict letter of the law in its financial management. The most important breach occurred in August 1951 when the government of the day made substantial payments in anticipation of the Governor's warrant, leading the Auditor-General to write a stern letter to the Treasurer.¹⁴

The Parliamentary Committee of Public Accounts had been discontinued during the depression and both Norris and Peverill regularly referred to the desirability of reviving it. Peverill regularly referred to the anomaly that he had a statutory obligation to report breaches of the *Public Account Advances Act* to the Committee of Public Accounts, but he was unable to do this while there was no committee. He also argued that 'the prospect of inquiry by a Public Accounts Committee would strengthen existing procedures designed to prevent waste or extravagance in public expenditure'.¹⁵

The most important continuing concerns the Auditor-General had with the public accounts were over the failure of most departments and authorities to make proper allowance for depreciation, and with the use of loan funds for current expenditure. While the Dunstan government had used its large surpluses to build up depreciation funds, these ran down rapidly after the war and, as Peverill noted with alarm, only the SEC allowed an adequate amount for depreciation in the years 1946–1950.

Edwin Peverill regularly referred to the anomaly that government accounts were not consistent in their use of cash or accrual accounting. All departments and most government authorities presented their accounts on a cash basis, while some authorities and government businesses worked on a commercial or accrual basis. The Treasury itself was inconsistent. The Auditor-General noted that 'the Consolidated Revenue account is kept on a cash basis [but] expenditure is recorded only partly on a cash basis ... Accrual accounting does not accord with the requirements of the Audit Act but it has the merit, to the extent to which it is applied, that each financial year bears the costs relating to that year.'¹⁶ He recommended that the Audit Act be reviewed to encourage the use of accrual accounting in the public sector, foreshadowing a reform that did not take place until the 1980s.



Cricket team 1948. Back row, L-R: unknown, J. Wise, J. Whelan, J. Richards, G. Liney, E. Davie, J. Jones, A. Meggs, W. Duncan; front row, L-R: A. Ashman, J. Oakley, W. Dynon, P. Hamblin, T. Keogh.

However, the emphasis in Peverill's term as Auditor-General was not on the public finances of the State, but on the audit of the major government departments and authorities and particularly the detection of fraud. Bruce Hamilton recalls that Peverill prosecuted thieves in the public service without fear or favour. Bruce was involved when the registrar of the Gordon Institute in Geelong was caught stealing money. Part of the audit of the Gordon was done by the Audit Office and part by local chartered accountants and the defalcations had occurred in the areas not audited by the Audit Office, but Bruce was involved in the investigation. He reported to Peverill that the registrar was a man of some importance in Geelong, a pillar of the community, involved in church, charities and community groups, but Peverill interrupted him to say very sharply, 'He's a thief.'¹⁷

The largest defalcation discovered by the Audit Office in this period took place in the Immigration Branch of the Chief Secretary's Department, with the collector of imposts stealing over £17,000 before being caught in June 1955. Beyond its size there were several significant features of this defalcation, as noted in the Audit Office report:

There was no effective control at the Branch; Officers in Charge apparently placed too much reliance on the work of the Collector because he had at one time been a clerk in the Audit Office.

Prior to June 1955, no audit of the accounts of the Collector had been made, as his appointment had not been recorded ... at the Audit Office.

This lapse occurred at a time when, due to the loss year after year to other departments of a large number of audit officers, the experienced men remaining fell below minimum requirements, and audits were in arrears.

The Immigration Branch had no effective internal audit and the defaulter was able to operate free of scrutiny. At the same time there was no external audit for eight years due to an administrative oversight and a shortage of experienced staff. Although the thief was a former Audit Office clerk, the fraud was not particularly sophisticated and was detected by the first audit of his accounts. He was convicted of embezzlement and sentenced to three and a half years' imprisonment.¹⁸

In an outline of the structure of the Audit Office written in 1950, Edwin Peverill noted that, 'The Inspector of Officers in Charge of Stores is required by law to inspect the books and accounts of every officer in the Public Service whose duty it is to receive stores, and to report to me the result of such inspection.' Although he recognised that full compliance with the requirements of the Audit Act was neither practical nor economical, the inspector made extensive examinations of stores throughout the State. Ted Bennett, who joined the office as a sixteen-year-old in 1940, recalls that his first outside work after he completed his accountancy qualifications was as assistant to Walter 'Snow' Davis, who was inspector of stores during the 1950s. They did stocktakes in jails, mental homes, public works storeyards (which were a real mess) and many other places. Checking stocks of petrol and building materials was always particularly difficult in the public works storeyards. They checked the ward stocks in mental hospitals and Ted remembers that they even checked that all the bedrooms had a basin and ewer (pitcher) as set down in the stores list. Once Snow noticed that the ewer in the second room looked exactly the same as in the first room, so he put a green mark on the bottom and, sure enough, he was shown the same ewer thirteen times. On another occasion, an audit of Education Department stores resulted in the charging of a truck driver with the theft of five gross of toilet paper, the property of Sands & McDougall Pty Ltd, an electric bench grinder, kneeling mat, durex dispenser, engineer hammer, pincer, marking gauge, eyeletting machine, metallic tape, and a wide variety of cutlery and kitchen utensils.¹⁹

Wilton Cove and Edwin Peverill were both born in 1892 and were therefore due to retire in 1957 when they turned sixty-five. Throughout the period 1937 to 1957 Cove lived in hope that Peverill's health would fail and he would succeed to his rightful position. However, Peverill's health held up and as 1957 approached it became obvious that Cove would never achieve his ambition. In 1956 Cove suffered a further affront when Peverill and the Public Service Board discussed methods of bringing Redvers Gillard back into the Audit Office to prepare him to succeed Peverill as Auditor-General. The suggestion was made that Gillard should be appointed deputy Auditor-General, but Cove pointed out that this was illegal as the deputy Auditor-General was a statutory appointment that could only be made when the Auditor-General was absent from duty. Consequently the new position of Assistant Auditor-

General was created for Gillard, although in the final months of Peverill's term, the Auditor-General regularly referred to Gillard as his deputy and successor, leaving Wilton Cove increasingly isolated.²⁰ Edwin Peverill retired in March 1957 being followed two months later by Wilton Cove, after a record forty-eight years continuous service in the Audit Office. When his office was cleaned out, the cupboards were found to be full of bags of coal, hoarded for cold winter days in the old Treasury building.

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- ¹ Undated memorandum by John Norris; PRO VPRS 2044, item 17, no. 123.
- ² I am grateful to Miss Eileen Bell for the notes that she made for me on her years in the Audit Office and particularly on the four Auditors-General she worked with, Edwin Peverill, Redvers Gillard, Arthur Gardner and Bruce Hamilton.
- ³ Blainey, *Our Side of the Country*, p. 195.
- ⁴ This paragraph is based on the recollections of Bruce Hamilton, Jim Woods and Alan Meggs.
- ⁵ Cove to NSW assistant Auditor-General, 28 June 1938; PRO VPRS 2043, item 24, p. 15.
- ⁶ Peverill to secretary, Public Works Department, 25 November 1938; PRO VPRS 2043, item 24, no. 332.
- ⁷ Auditor-General to secretary, Premier's Department, 21 July 1939; PRO VPRS 2043, item 25.
- ⁸ Auditor-General to Area Officer, District 24a, 27 January 1942; PRO VPRS 2043, item 28, no. 43.
- ⁹ Auditor-General to secretary, Premier's Department, 10 February 1944; PRO VPRS 2043, item 30, no. 51.
- ¹⁰ Wilton Cove to Mr Westhorpe, Shire Hall, Winchelsea, 21 April 1943; PRO VPRS 2043, item 29, no. 160.
- ¹¹ Auditor-General to secretary, Premier's Department, 18 December 1944; PRO VPRS 2043, item 30, no. 531.
- ¹² *Report of the Auditor-General*, 1942–43, p. 25.
- ¹³ Cove to secretary, Premier's Department, 21 January 1946; PRO VPRS 2043, item 32, no. 21.
- ¹⁴ Auditor-General to Treasurer, 30 August 1951; PRO VPRS 2043, item 37.
- ¹⁵ *Report of the Auditor-General*, 1951–52, p. 149.
- ¹⁶ *Report of the Auditor-General*, 1954–55, p. 139.
- ¹⁷ The details of this defalcation were as follows: 'The Registrar ... misappropriated moneys by negotiating bearer cheques for expenditure. He covered his operations by the presentation of false vouchers on which the initials of departmental officers had been forged and by using receipts from firms on which the dates and amounts had been altered. The amount involved since 1941 was roundly £5,250. He pleaded guilty to larceny as a servant, was convicted and sentenced to nine months' imprisonment. Full restitution was made.' *Report of the Auditor-General*, 1952–53, p. 130.
- ¹⁸ *Report of the Auditor-General*, 1954–55, p. 136.
- ¹⁹ Auditor-General to secretary, Education Department, 19 July 1958; PRO VPRS 2043, item 44, no. 496.
- ²⁰ For example, Peverill to Commonwealth Auditor-General, 19 October 1956; PRO VPRS 2043, item 42, no. 648.
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12


Gone bush

The timber truck came roaring round the bends on the narrow road between Noojee and Powelltown in the mountains east of Melbourne. Balanced precariously on top of the massive logs, dressed in a suit and clutching his hat and briefcase was ... an audit inspector. What was he doing there and where was he going? The answer can be traced back to the *Audit Act 1857*.

Under section 30 of the 1857 Audit Act, the Commissioners of Audit were required to ‘once at least in every year inspect the books and accounts of every receiver, collector and paymaster’. Taken literally this section meant that the commissioners had to visit personally every government office in the State — from the Treasury and the railways head office in Melbourne to the post office in Patchewollock, the courthouse in Rainbow and the lands office in Swifts Creek. For the next thirty-six years one of the commissioners was on the road almost continually making country inspections, while his colleagues performed the city audits and supervised the work of the office. In the 1880s the volume of work increased greatly with the establishment of over two hundred water trusts throughout rural Victoria, and this led to an amendment to the Audit Act in 1893 to allow the commissioners to delegate the country inspections to ‘examiners’. From this time on many of the Audit Office staff spent a large part of their careers travelling and tales of the country inspections came to form a large part of the mythology of the Audit Office. It is impossible to establish the date, location or authenticity of many of the stories, but they are presented in this chapter as a record of a significant facet in the history of the office.

Before the Second World War country work was largely restricted to the four inspecting officers, who were normally the officers ranking immediately after the chief clerk in seniority. Occasionally junior clerks would accompany the inspectors to help with the larger audits and, from the early 1940s female comptometrists regularly travelled ahead of the

inspectors to do all the additions, considerably reducing the inspectors' workload. In the post-war years many of the senior staff were assigned to the major fixed location audits, with country inspections being carried out primarily by middle-ranking and junior staff in the years after completing their qualifications, together with some long-serving officers who made a career of country inspections.

In the late nineteenth century the Audit Office was divided into revenue and expenditure sections. With the appointment of the first inspectors, the office was restructured into inspecting or outdoor staff and head office or indoor staff. This structure remained in place until the late 1950s when it was replaced by a divisional structure. The State was divided into five sections, with each division being allocated a country section, together with a certain number of fixed location audits and metropolitan audits. However, Wilton Cove maintained complete control over the assignment of audits and the divisional structure only functioned as designed after he retired. From 1957 auditors were allocated to a division as soon as they completed their accountancy qualifications and their country audits would all be in that division's district.

Until the early 1960s the audit inspectors travelled almost exclusively by train or bus. Each year the office bought six 'all-lines' railway passes — one for Edwin Peverill, one for Wilton Cove (both men were rigid in using them only for work purposes) and four to be shared by the inspecting staff. While six passes were enough in the 1930s, by the 1950s the increased number of inspectors meant that they were a source of constant aggravation. Inexplicably the office did not get additional passes and travel became a worry for the average staff member. Una de Burgh, a long-serving comptometrist, recalls that on one occasion she could not get the pass from the previous user in time to catch her train to Nhill, so she had to get the Adelaide Express which stopped at Nhill very late at night. She phoned her hotel to say she would be late and would get a taxi — only to be told that there were no taxis in Nhill. She was fortunate that she met someone on the train who gave her a lift to the hotel.

Even though the railway system was far more extensive in the 1950s than it is today, many places were very difficult to get to by public transport. Jim Wenmouth did the audits in Wonthaggi for many years and recalled that he had to take the South Gippsland train to Nyora where the last carriage was uncoupled and sat waiting for a steam engine to back up and take it on to Wonthaggi. The Friday train back to Melbourne did not leave until 6.00 p.m. so it was very late in the night before he got home. Frequently auditors tailored their jobs to fit the train timetable. When Bruce Hamilton was doing major audits in Benalla, he would set some time aside to audit the water trust in Devenish. This involved taking the rail motor on its trip to Yarrawonga, getting off at Devenish and completing the audit in two hours in time to catch the rail motor on its return trip. The secretary of the Devenish Water Trust was the local blacksmith and he always had a nice fire going in the room of his home he used as an office.

Audits past the railheads presented even more difficulties. Trips to places like Mallacoota, Omeo, Macarthur and Swifts Creek meant long and uncomfortable bus rides, while for some remote locations, hitchhiking was almost the only solution. In some areas a favourite dodge was to find the nearest State Rivers office or depot and the determined auditor could normally find a ute to give him a ride. Flav Belli found that he often had to rely on local people to drive him around. Once a policeman drove him from Benalla to an audit in Glenrowan, but then the policeman got an urgent call to an emergency further away from Benalla. Flav asked what he could do to get back to Benalla. The policeman told him not to worry and stood in the middle of the road with his hand held high and stopped the next car. After he told the worried old couple in the car that he was only looking for a lift for a harmless auditor to Benalla, the couple happily agreed.

The most famous hitch-hiker in the Audit Office was Andy Keane, an eccentric bachelor, well known for his ability to add up any column of figures in his head just reading down them once — and this was in pounds, shillings and pence! Even when the office got cars, Andy Keane never drove, but continued to hitchhike everywhere. He did audits in the timber towns up in the hills and often got lifts from timber trucks. Strictly speaking they were not allowed to let him into the cabin, so legend has it that he rode on top of the timber.

In Wilton Cove's time, Audit Office staff were only allowed to use their own cars for work in exceptional circumstances, primarily, it appears, to lessen the possibility of queries on staff claims for travel expenses. In addition, even in the 1950s cars were still a luxury item and the prohibition on use of personal cars for work may have been intended to maintain a feeling of egalitarianism in the office.

By the end of the 1950s, as the railway network began to shrink and cars and roads continually improved, Bruce Hamilton convinced Redvers Gillard that the office needed a couple of cars to improve the efficiency of country audits. Consequently, in June 1961 the office bought its first car. It was a green EK Holden, with gold upholstery — the common belief was that Bruce Hamilton decided that the car had to be green to match the auditors' green pencils. It was also rumoured that Treasury told the Auditor-General, 'Just because you've got one car, don't think you'll get another.'

The first car was shared between all the audit districts, with each district having it a week at a time. When they had the car, four or five auditors would squeeze into it and try to do all the audits in one area as quickly as possible. They covered enormous distances and the car very quickly proved its value in saving time and giving greater flexibility. In June 1962 the office requested a second car and within a few years enough cars were available for most country audits.

Every weekend the office cars would need to be swapped around to make sure that the right people had them for the following week and this could be very inconvenient if the other person lived right across town. Bruno Dinelli recalls that one week his team was working in Bairnsdale and they finished their jobs on Thursday night so they could leave for home early.

On the Friday morning they went in to the courthouse, said goodbye and left about 10.00 a.m. Soon after they left, Leo Considine, the director in charge of the district, phoned Bairnsdale to advise that there had been a change of plans for the cars for the next week. The clerk of courts did not want to do in the auditors for leaving early, so he told Leo they'd gone to audit a police station, but he could not remember which one. The clerk of courts then rang the police in Sale and told them to stop the auditors' car and tell them to ring head office. When the auditors' car was approaching Sale, David La Franchi was driving, feeling poorly after a big night on Thursday. They saw a police car coming the other way and gave it a friendly wave, but then it turned around and for two or three miles sat right behind them. David drove very carefully, getting more and more worried. Eventually the police pulled them over and a fierce-looking policeman got out with his traffic infringement book. David stammered, 'What have I done wrong?' To which the policeman said, 'I just wanted to see if you had a clear conscience.' Then he told them the message so they were able to ring Leo and tell him they were doing the audit at Stratford police station.

Neville Eyre recalls that one week there was a mix-up with the cars and his team missed out on one. Neville was the only one who was prepared to use his own car for the trip so they had to squeeze into his tiny Volkswagen. Neville drove so his seat had to be pushed back; John Mohr was very tall with arthritic knees, so he sat in the front with the seat again pushed right back. This left Graham Hamilton and Una de Burgh squeezed into the back seat of the VW with a couple of suitcases on their knees.

The introduction of cars revealed many unusual driving habits among the Audit Office staff. Perhaps the strangest were those of John Mohr, an old-style auditor, who had spent some years in New Guinea. Wherever he went, John Mohr always insisted on driving. He was convinced that a car should be kept in neutral as much as possible — whenever he stopped at a traffic light, he would put the car into neutral and sometimes they would miss two or three changes of lights while he tried to get it back into gear. On the highway he would get up to the speed limit then throw the car into neutral and cruise till the speed was down to about 10 m.p.h. He never explained why he did this, but he would never let anyone else drive and the trips were very slow.

A major change with the introduction of cars was that the Audit Office staff began to travel in regular teams. Previously country auditing had been a solitary and lonely pursuit, but from the 1960s the country trips became more convivial. When an audit team travelled to Mildura, they would put the car on the train to Mildura, and fly up on Sunday night, arriving in time to go over the river to play the pokies. Every night they would party over the river and then work during the day. One pair who always worked together had a few drinks at lunchtime and a few more in the afternoon and a few before dinner and a few with dinner and then 'just one for the road' which often turned into two or three. In spite of their heroic consumption, no-one ever saw them the worse for drink.

Ever since the female comptometrists started to do country work in the early 1940s, they had been strictly prohibited from travelling with the male staff. This was primarily to ensure

that there was no temptation to ‘impropriety’, although it was also justified on grounds of efficiency as all the additions would be completed when the auditor arrived. This was lonely and sometimes frightening for the comptometrists, who were often still in their teens. However, with the retirement of Wilton Cove and the introduction of cars, the women and men began to travel together, with one comptometrist to each team of three or four auditors.

Naturally the regular country travellers soon learnt the best places to stay. In the 1950s and 1960s the standard of accommodation in the country was generally very poor and most auditors had unfortunate experiences with hard beds, burnt breakfasts and the like. Many auditors recall that the pubs in Moe were so bad that they planned their trips to avoid staying there, while Jack Buchbinder used to comment that there was so little food at a pub in Lang Lang that the soup barely made the plate moist and the cornflakes were carefully arranged on the bottom of the plate. In contrast, Wally Taverner’s pub in Wonthaggi was very old, but had excellent accommodation and facilities. It even had a television installed for the 1956 Olympics.

Many of the regular country auditors made a life of travelling, with several bachelors not even having homes in Melbourne. They would live almost entirely on their travelling allowances and save all their salaries. To further enhance their savings, some of them would claim accommodation expenses while actually sleeping in tents, on beaches or in caravans. One eccentric auditor in the north-west division often claimed he was staying with his aunt in Swan Hill when he was really staying in a tent by the river. Later he took to pulling a caravan around from audit to audit.

The best-known permanent traveller among the staff was Charlie Ward, a bachelor from England. He was very generous with others, but mean with himself as he had lost everything in the depression and never wanted it to happen again. He travelled light, often with just his suit, office file and toothbrush. Once when he arrived in Murrayville late in the afternoon, he was asked if he would be staying there the night and he said, ‘Yes, of course — I’ve got my toothbrush.’ While he was not averse to sleeping on the beach to save money, if he found good board in a town, he would stay there as long as he could, dragging a small audit out to last as long as possible. Charlie Ward invested all his savings on the stock market and carried all the information on his shares in a tiny book in his pocket. Once a publican noticed him sitting in a corner with a radio and a notebook and called the police thinking he was an SP bookie. The police took him away in a paddy wagon before he was able to convince them he was in town to audit the books rather than run a book.

Many of the young, unmarried auditors found the country trips an appealing part of their work. One summer Neville Eyre organised to spend three months in Warrnambool doing all the audits. He arranged his working hours to fit in with an active sporting and social life, spending a lot of time at the beach and keeping up with his cricket training, while working late at night or at weekends to catch up with his work. After he was married he would often take his wife and children with him. One year they booked a holiday flat at Bairnsdale for two weeks and the family stayed there while Neville did his audits.

The country work was not exclusively the preserve of the recently qualified junior staff and a few eccentric bachelors. During the 1940s and 1950s Wilton Cove regularly conducted audits, mainly in the Western District, where he enjoyed auditing at Dunkeld, Portland and Apollo Bay. This letter to the town clerk of Portland indicates his approach to country auditing (and also shows that he ignored the general ban on women comptometrists travelling with auditors).

Dear Mr. Henry,

Now the Royal Visit has been deferred [owing to the death of George VI] it is reasonable to turn one's thoughts again to the audit program. If agreeable to you I propose to leave here on Friday, March 7th, to commence the audit of the Portland Water Trust and that of the other Portland activities for which this office is responsible. Miss Doherty will not be available for the trip, but Miss Manton will take her place. She has a friend living in Portland with whom she will stay, if suitable to her friend. Mrs. Cove and I were so comfortable with Mrs. Smith last year that we would be happy to be accommodated there again, and I should be glad if you would be good enough to make a booking for us, and also a tentative booking for Miss Manton pending advice from her friend. She will confirm her arrangements with you at a later date.

With kind regards to yourself, George and the other members of the staff.

Yours sincerely,
Wilton Cove.¹

The audit inspectors frequently encountered challenging working conditions. Air conditioning was very rare before the 1970s so they sweltered in summer, while in winter they often worked standing up, wearing their overcoats to keep warm. As they were always keen to complete their audits by Thursday night so they could return home on Friday, it was standard practice to work late into the night. This could lead to some interesting encounters with local residents as municipal offices often had rooms for local organisations to use. Once in Wodonga, Bruce Hamilton was set up in the council chamber doing the audit late into the evening and while he was working there was a tremendous racket coming from the committee room next door. The caretaker told him it was a football club pie night and halfway through the evening he came back with a pie for Bruce. The caretaker's hands were caked with grime and looked like they had never been washed. Bruce tried to say that he would eat it later, but the caretaker insisted he have a break and eat it now. Bruce says he had to force down every mouthful. On another occasion in nearby Rutherglen, Gwen Marks recalls that she was told to keep working on an audit in the Shire Hall even though it was Anzac Day. The Anzac Day services were held in the hall and Gwen had to keep working away on her calculating machine while the locals sang their hymns and said their prayers.

It was standard practice to ask for the key to the offices of the water trust, court house or whatever so they could work at night. Cyril Burke, a well-known workaholic auditor, took this to extremes when he arrived at Ouyen at 4.00 a.m. and woke up the shire secretary to demand the key to the office so he could start work. Night work could be hazardous. One

auditor finished working upstairs late at night at the Benalla Waterworks Trust, turned out the lights and then fell down the stairs, fortunately without injuring himself. Another auditor was not so fortunate — he was on his way to do the audit of the Wangaratta Hospital when he fell and broke his leg, ending up as a patient in the hospital he was meant to be auditing.

The main problems the inspectors encountered doing country audits were incomplete or inaccurate work, especially with the water trusts (though it was, of course, not unique to the country). Frequently the auditor ended up doing the accounts as it was the only practical way to get the work done. Most of the secretaries tried hard, but at the small trusts they were usually part-time and often had no more training than being secretaries of the local mothers' club. The bigger ones had full-time secretaries but even then the accounts were often poorly done. At one water trust the secretary had made no entries at all in the ledger and told the auditors that it was their job to write up the ledger. On another occasion a sheriff had had a breakdown and an auditor was sent to check on his accounts. He found that everything was years behind and the safe was crammed with cash and cheques. There was no evidence of a defalcation, but the sheriff had done no banking and kept no accounts for years.

Audit inspectors were meant to ensure that receipt books and so on were properly stored, but there were times when they were lenient on this. John Kehoe always took his golf clubs on country trips and had a round when he could. On one trip he met the local police sergeant on the golf course and they played a round together. John told him he would be coming to check his accounts in a day or two, but when he arrived he noticed that all the receipt books were in a cupboard when they should have been in the safe. He queried the policeman who explained that the safe was full with the trophies for the local police and publicans golf day, so he had had to temporarily move the receipt books.

While the auditors often had to instruct the country officials in proper accounting practices, they also learnt something of country life. Part of the audit of the water trusts used to involve a check of excess water charges and Bruce Hamilton recalls that one year a water trust had no excess water charges at all — Bruce thought that the water trusts had not checked the water meters, but it turned out it had been a wet year and everyone had been able to use tank water for all their needs.

The prevailing philosophy of the Audit Office in the 1950s and 1960s was that its main function was to prevent fraud in the public sector. In this aim the office was reasonably successful as defalcations were few and generally for small amounts. Many of the defalcations that were discovered were in remote places where there was very little external control. One of these was a country co-op with an illiterate treasurer, so the president and the secretary had no difficulty stealing money.

Many country defalcations involved the misappropriation of stores rather than the theft of money. One auditor recalled inspecting the stores at a Forests Commission depot:

‘It says you should have ten post hole diggers — I can only see two.’

‘The others are out on the truck.’

‘There are only three shovels here when there should be thirty.’

‘The others are out on the truck.’

‘Twenty axes?’

‘Out on the truck.’ ...

The conversation came to an end when the truck pulled into the yard — empty.

Much of the work on the country trips was both tedious and trivial. The audit inspectors were meant to carry out one hundred per cent transaction audits — checking every voucher, every receipt and every addition of every water trust, police station, court house, lands office, State Rivers, Country Roads Board and Forests Commission depot throughout the State. Almost inevitably some of the auditors lost all sense of broader audit issues. Leo Considine was a director who many recall as being very bright but obsessed with minutiae. Once Neville Eyre was one pound out with his reconciliation of a water trust. He had corrected the error but had not fixed it in his working papers so Leo sent him back to Gippsland to make the alteration. On another occasion Ron Tilley, Olief Sorensen and Bruno Dinelli went to the Toora Water Trust which had not been audited for about five years. The trust had a new building and a new full-time secretary. When they told the secretary they were there to do the audit for the previous five years, he showed them a pile of boxes sitting on the floor in the middle of a room. He had only taken over the job a few months before and he had started a brand new set of books because the previous part-time secretary had found it all too hard and had not kept any books or accounts for about four years. They told Leo Considine about this and asked what to do, expecting to be told to forget about it, or at most to do a few random checks, but Leo told them to write up all the books. The three of them stayed in Toora for about three weeks while they wrote up about four years of accounts. The audit fee was set by the Governor-in-Council at about a guinea a day, so the water trust got a bargain.

Cyril Burke typified the old-style auditor. A contemporary of Wilton Cove, he enjoyed his reputation for being meticulous, scrupulous and painstakingly thorough. Once when he was doing the audit of a waterworks trust, he insisted on being taken to a work site, where he carefully stepped out the length of the pipes that were waiting to be laid to ensure that it matched the quantity that the trust had purchased. On another occasion he was inspecting some stores and saw some tins labelled 2-4-D (a highly toxic herbicide). He was suspicious of everything so he asked, ‘How do I know it really is 2-4-D?’ The reply was, ‘Why not taste it?’

However, by the 1960s Cyril Burke’s style of auditing was becoming increasingly difficult to carry out. The growth of the economy and the expansion of government services generated an overwhelming volume of paper. No matter how dedicated the inspectors, it became almost impossible to check every transaction and the system began to show signs of breaking down. Many young auditors started with the aim of doing every audit really well but then found that they had to work day and night to keep up with the times put down by the

previous auditors as the volume of work was growing all the time. Inevitably many audit inspectors began to carry out selective checks rather than checking every transaction. The growing volume of work was also felt by the comptometrists. Una de Burgh was told to go to Castlemaine and check the additions of every column in all the rate books, but she saw that this would be an enormous and largely pointless exercise, so she decided to check a sample of them. The philosophy of the Audit Office was slow to change, but a type of informal systems auditing began to develop by necessity.



Sid Muscat between country audits, Eildon, early 1970s.

By the 1970s many people were beginning to question whether the returns from country work justified the enormous resources devoted to it by the Audit Office. They wondered whether it was appropriate that the office appeared more concerned with chasing tiny defalcations and miscalculations that might cost the State a few dollars, rather than massive inefficiencies that might have been costing the State millions of dollars. It was very expensive sending staff to carry out all the tiny audits, so, from the late 1970s, they were contracted out to private sector firms. The end of the institution of country work was widely supported in the office as there were many more graduates with young families who would not tolerate months on the road every year. Most of the older auditors who had thrived on country work had retired, although some who were still working chose to take jobs in the country (sometimes as secretaries of the water trusts they had audited) rather than work full-time in the city.

¹ Chief Clerk and Chief Inspector to Town Clerk, Portland, 20 February 1952; PRO VPRS 2043, item 38, no. 102.

13


Winds of change, 1957-77

John O'Brien joined the Audit Office in 1969 and in the early 1970s was assigned to the continuous audit of the State Rivers and Water Supply Commission. One day he was hard at work carefully checking every item of ten of the commission's fortnightly payrolls. The payroll documents were strategically set up on desks, chairs and rubbish bins to facilitate comparison from one to the next in chronological order. When he went home for the night he left the payrolls set up, only to find when he returned to work the next day that the cleaner had thrown them all out. This marked the end of the one hundred per cent transaction audit of the State Rivers payroll, and symbolises the gradual breakdown of the traditional audit process during the years 1957-77.

On the surface this period appeared to be an era of stability in which the work of the Audit Office continued steadily on the pattern built up over the decades. However, rapid growth in the Victorian economy and the public sector, revolutionary developments in auditing theory and practice originating in North America, the beginnings of computerisation and other factors led to growing pressure for change in the office. Although these changes were little more than embryonic before 1977, the foundations were laid for rapid progress in the office in the 1980s.

The three Auditors-General who served in this era had much in common. Like their predecessors, they were career public servants, but they differed from earlier Auditors-General in that they had all worked in the Audit Office at various times before being appointed to the top job. Consequently they were imbued with the culture of the office and embodied a strong tradition of continuity.



*First conference of Australian Auditors-General, Canberra, February 1957. The Victorian Audit Office was represented by Bruce Hamilton, (2nd from left, back row) and Auditor-General designate Redvers Gillard (5th from left, back row).
(Bruce Hamilton).*

In 1957 Redvers Gillard succeeded Edwin Peverill as Auditor-General. For many years Peverill had been calling for revisions to the Audit Act, but without response. However, in the late 1950s the Bolte government carried out a major program of statute reform and consolidation and Gillard persuaded the government to include the Audit Act in the reform process. Introducing the amendments in June 1957, the Premier, Henry Bolte, stated that,

The Government is convinced that a revision of the existing provisions is necessary to bring them into line with modern requirements ... An additional power for the Auditor-General which is provided for in the Bill is the **discretionary right to decide the extent of his check in respect of each of the audits which he is required by law to conduct**. This conforms with modern audit trends both in governmental and in private spheres. It will be realized that under modern conditions a complete check is not always practicable or warranted.¹

Although this amendment was a welcome step forward, it did not lead to great changes in the work of the office as it merely gave legislative recognition to the fact that it was no longer possible to check everything. In practice, most senior auditors were so set in their ways that they still tried to carry out complete transaction audits. Only a few began to attempt to develop a 'systems-based' approach aimed at making carefully planned selective checks to reveal the effectiveness of internal controls. Among these were Ron McDonald

and Jim Jones, two auditors based at the railways, who felt that the sheer volume of transactions in the railways made a one hundred per cent audit impractical, and this led them to be among the first in the Audit Office to consider the possibilities of selectively auditing aspects of an organisation.

This is not surprising as the whole Australian accounting profession was intensely conservative and insular, and few had any knowledge of the rapid progress in auditing theory and practice that occurred in North America in the 1940s and 1950s. In North America from the 1930s almost all accountants were university educated, but in Australia university education was rare until the 1960s, with training being the responsibility of the accounting bodies. By the end of the 1950s auditors in the United States and Canada had developed the concepts of systems based auditing, statistical sampling and efficiency audits. They were even beginning to grapple with the auditing problems that would result from the development of electronic data processing. These ideas did not begin to filter into Australia until the 1960s and Redvers Gillard, Auditor-General from 1957 to 1965, played a significant role in their introduction in this country.

REDVERS GILLARD

Redvers Gillard was born in 1900 at Elphinstone, near Castlemaine, and educated at Melbourne High School before joining the public service in 1917.² After three years with the Education Department, he moved to the Audit Office in 1920. Like most junior clerks he studied accountancy at evening school, but he was exceptional in the inter-war years in going on to complete a commerce degree at the University of Melbourne. Redvers Gillard attracted the favourable attention of the Auditor-General, John Norris, who wrote glowing references in support of his applications for promotion. For example, in January 1930 Norris wrote, 'Mr Gillard has qualifications gained from experience and study which justify me in highly recommending him for this vacancy. I have on several occasions tested his capabilities and he has given the utmost satisfaction.'³

Redvers Gillard's outstanding abilities led both John Norris and Edwin Peverill to give him responsibility for many special tasks. In June 1945 Peverill recommended him to the Premier's Department for a bonus for exceptional performance:

The services of Mr. R.W. Gillard of this office were made available to the Law Department to investigate the affairs of a defaulting Solicitor Reginald M. V. Blackmore against whom a criminal action has recently concluded. It will be seen from the attached letters from the Secretary to the Law Department and the Prosecutor for the King that the eventual outcome was largely due to the skill and persistence with which Mr. Gillard pursued his inquiries. The work occupied a period of about three months in the past two years during which time Mr. Gillard had to devote many hours of his private time to this task while carrying on his normal official duties. The preparation of the case for presentment and the final conference with the Police and the Prosecutor for the King entailed considerable mental concentration. As a

recognition of his untiring diligence and the satisfactory manner in which he carried out this investigation, I recommend that Mr. Gillard's services be rewarded by the payment of a gratuity of £30.⁴

In 1946 Redvers Gillard became chief clerk and accountant of the Explosives Branch of the Chief Secretary's Department, before being appointed a public service inspector in 1947. In 1956 he returned to the Audit Office as assistant Auditor-General, with the expectation that he would succeed Edwin Peverill on his retirement in April 1957.



Redvers Gillard, Auditor-General, 1957-65.

Imposingly built, friendly and outgoing, Redvers Gillard was very popular with the Audit Office staff. Eileen Bell recalls that he had a loud, but pleasant, voice that could be heard through the office even as he came up in the lift. He built up team spirit with the divisional structure of the office and ensured that there was genuine devolution of control over audits. Redvers Gillard took a great interest in the progress of the younger staff members and gave them every encouragement to complete their studies. He also used his connections with the Public Service Board to get promotions and entitlements for his staff. In 1962 Graham Hamilton asked for leave without pay to take a honeymoon in Europe. This was against public service regulations, but Redvers Gillard helped get Public Service Board approval as he believed that overseas travel broadened people's views. John Kehoe tells another story that illustrates Gillard's attitudes to his staff. One day John and a friend had been out to lunch to buy a present for a chap who was leaving the office. They were a bit late getting back and they had just got in the lift when Redvers Gillard came along. The

lift driver sneered, 'You're late boys and you've been caught.' Gillard looked at him and said, 'If they're late then so am I.'

An outstanding sportsman in his younger days, Redvers Gillard remained a keen lawn bowler and always took an enthusiastic interest in the activities offered at the bi-annual conferences of Australian Auditors-General. He regularly won the bowls and snooker tournaments at these conferences.

Completely dedicated to the public service, Redvers Gillard retired in 1965 having never taken long service leave and rarely taken sick leave. He died in 1978 at the age of seventy-seven.

In 1963 Redvers Gillard became the first Auditor-General since John Norris in 1919 to make an overseas study tour. He visited government audit offices in Canada, the United States and Britain and, on his return, wrote a long report on 'Government Auditing' that contained the seeds of many revolutionary changes.

Reading the report even today one can sense Gillard's astonishment at what he observed in North America, where public sector auditing was a generation ahead of Australia and Britain. In Canada he found that the Audit Office had developed a 'comprehensive audit approach' in which it carried out selective checks based on statistical sampling, and audited government departments and other agencies not just for financial rectitude but for efficiency. He noted that government departments and other agencies do not have the profit incentive to control so they have to 'develop their efficiency yardsticks in administering public funds, not only to ensure that expenditure is adequately controlled but that "built-in costs", which can so often escape the notice of the best intentioned managements, come under constant scrutiny and revision'.⁵ In Washington Gillard learnt that, 'General Accounting Office audits are not restricted to accounting matters or to books, records, and documents. The scope of these audits is comprehensive and may extend into all significant aspects of an agency's operations.'⁶ Similarly, he was intrigued to find that the State auditors in Wisconsin carried out 'management audits' that were 'intended to examine and evaluate the management practices, operating procedures, and organizational structure of a state agency for the purposes of assuring optimum utilization of personnel and equipment, efficient methods and procedures and adequate administrative planning'. He also noted that the auditors in Wisconsin employed outside experts to help with management audits.⁷

For Redvers Gillard efficiency auditing was the greatest eye-opener of his overseas trip, but there were many other new ideas he brought home. He found the concept of accounting standards, which were almost unknown in Australia, to be well established in North America. He noted that almost all North American accountants were university trained and that most government audit offices in the United States and Canada used audit manuals to provide a framework for their work. In North America, public sector businesses were audited 'in accordance with the principles and procedures applicable to commercial corporate

transactions', in contrast to the Victorian Audit Office which audited, for example, the SEC in essentially the same manner as the Education Department. He found that government auditors in North America were beginning to grapple with the problems and possibilities computers and 'automatic data processing' would bring to their work, again in stark contrast to the situation in Australia where the issue had barely been mentioned. He commented 'the auditor has a potentially more significant role in Automatic Data Processing Services than he had in any previous accounting era, and his future depends upon the degree to which he qualifies himself to perform his function'.⁸

Redvers Gillard was obviously impressed with the progress he saw in public sector auditing in North America and he realised that the Victorian Audit Office and the whole accounting system of the Victorian public sector were very backward in comparison. However, he faced difficulties in implementing any innovations. Many aspects such as the structure of accounting education and the development of accounting standards required national action from the profession, the universities and state and federal governments, while others such as efficiency audits would require legislative authorisation and significant cultural changes within the Audit Office.

To Gillard the most immediately applicable development in auditing theory in North America was the emphasis on internal audit. In Victoria most government agencies had no internal audit, but in North America internal audit was close to universal. Ideally, the primary role of the external auditors was not to detect individual cases of fraud or minor irregularities, as these were the tasks of the internal audit, but to ensure that the systems of internal control were adequate. Where frauds or irregularities were discovered the auditor needed to determine the extent to which these reflected weaknesses in internal control procedures and to suggest remedial measures.

On his return to Australia, Redvers Gillard determined that the Audit Office should concentrate on promoting internal audits and improving accounting procedures throughout the public sector. The main task of the Audit Office should be to 'make appropriate selective or sample checks to determine the degree of efficacy of the respective systems of internal control'.⁹ This represented a major change of focus as the main theme of Gillard's early years as Auditor-General had been on the detection of fraud.

There were signs in Redvers Gillard's final year as Auditor-General that he wished to open the Audit Office to the other new ideas he had seen in North America. He closely considered the extent to which Section 48 of the Audit Act might allow the Auditor-General to undertake management or efficiency audits, but concluded that it restricted the office to recommending improvements to financial and accounting systems, and did not allow the type of wider studies of efficiency being undertaken in North America. Redvers Gillard also involved the Audit Office in the earliest studies of electronic data processing in the Victorian public sector. In 1964 a member of the Audit Office staff was seconded to a committee studying the possibility of installing a computer system 'for the purposes of governmental accounting and associated tasks'. Gillard foresaw that the computerisation of government

accounting would have a great impact on public sector auditing and he believed that the Audit Office should be prepared for these changes.

Redvers Gillard reached compulsory retirement age in 1965. He applied for an extension of his appointment until the fiftieth anniversary of his commencement in the Victorian public service so that he could begin to implement his plans for the extension of internal controls in government departments and authorities. However, his application was refused and he retired in November 1965. An interesting postscript to his career came in the early 1980s when the layout of the office's first 'value for money' audit was based very closely on a report on an American mental hospital, brought back by Redvers Gillard many years before.

The career of the new Auditor-General, Arthur Gardner, had followed a very similar pattern to that of Redvers Gillard. However, his main interest was always in public administration rather than auditing or accounting, and he showed no interest in pursuing the far-reaching reforms foreshadowed in Gillard's report on government auditing. Although the Audit Office maintained a high level of professionalism in carrying out its tasks, it was a period of complacency in which the office maintained the systems and methods of the past and ignored the rapid progress occurring overseas and even in other parts of Australia.

One important factor inhibiting progress in the Audit Office in this period was a critical shortage of qualified staff. As Redvers Gillard noted in 1964, there had been a marked decrease in the professional strength of the office in the previous seven years, accompanied by very rapid staff turnover. In 1957 the office had forty-seven fully qualified staff, but by 1964 this had fallen to forty-one and in the same period seventy-two staff members, of whom twenty-nine were fully qualified, had left the office through death, retirement, promotion or transfer. He gave two reasons for the difficulty in retaining staff: firstly, 'audit work is exacting and of great volume and it is ever waiting to be done' and many found themselves unsuited to it; secondly, many of the young officers could not accept the constant travelling and absences from home involved in country work, and chose to transfer to departments where this was not required.¹⁰ Even if Arthur Gardner had attempted to inaugurate radical reforms, they would have been difficult to implement given the staffing situation.

ARTHUR JOHN ALLIANCE GARDNER

Arthur John Alliance Gardner was born in Richmond in 1913 and educated at Williamstown High School. At the age of sixteen he joined the public service, serving as a clerk in the Department of Lands and Survey until 1940. During this time he completed his accountancy qualifications and, like Redvers Gillard, he was one of the select few public servants to gain a commerce degree from the University of Melbourne, although he majored in economics rather than accounting. Between 1940 and 1946 he was on the staff of the Audit Office, although for much of 1941 he was seconded to the Commonwealth Department of Supply. After three years with the Housing Commission, in 1949 he became

a Public Service Board inspector, rising to be chief inspector from 1957 to 1965 when he was appointed Auditor-General.



Arthur Gardner, Auditor-General, 1965-70.

Bruce Hamilton remembers Arthur Gardner as ‘one of nature’s gentlemen’ and ‘a man you could not help liking’. Gardner was one of the foremost intellectuals in the public service and always took an academic approach to issues. He had a deep interest in the theory of public administration and from 1950 to 1957 he lectured in public administration at the University of Melbourne. In later years he was involved in the establishment of the university’s Graduate School of Business Administration.

As Auditor-General, Arthur Gardner was very different from Redvers Gillard, taking little part in the day-to-day running of the office, although he would sit in judgement on a problem if asked. The senior staff liked him and found him pleasant and friendly, but to the younger staff he was very remote and many of them rarely saw him. His secretary, Eileen Bell, recalls that Arthur Gardner had many interests including the arts, theatre, and good restaurants. He was very particular about the use of good English and correct spelling, disliking the use of American abbreviations. His wife died shortly after he was appointed Auditor-General and he remarried shortly before his retirement.

Arthur Gardner was the first Auditor-General since Hugh Childers not to hold the position until death or retirement, being appointed chairman of the Public Service Board in 1970. On his retirement in 1978 he was awarded the Imperial Service Order. He died in 1986.

During Arthur Gardner's term as Auditor-General there was little change in audit methodology or the content and presentation of audit reports. Year after year the text in the annual reports was identical, with only the numbers being changed. For many years the Auditor-General's report was prepared on the famous 'blue sheets', large sheets of paper with the previous year's report pasted on them, that would be sent around to the various directors so they could alter the figures from the previous year's report for the entities they had audited. Even the queries in the reports were often repeated verbatim. For example, the list of assets of the Soldier Settlement Commission for many years included an amount of \$4,758,203 as 'the amount which the Commission considers to be the sum due from the Commonwealth Government for the balance of its share of excess costs ... in accordance with an arrangement made on 11th July, 1952 ... The Commonwealth's acknowledgment of the balance shown above has not yet been signified.' Except for the change from pounds to dollars with decimalisation this comment was included in every annual report for over fifteen years.

It is noteworthy that while the Audit Office remained very narrowly focussed on attempting a full transaction audit of the public sector, the Parliamentary Public Accounts Committee carried out several investigations using much of the language and methodology of Canadian 'management audits'. The committee's reports on the Public Works Department and the 'control and management of stores' looked closely at issues of efficiency and effectiveness, and made detailed recommendations for improvements in financial and management systems.¹¹ Although Arthur Gardner gave evidence to these inquiries, he does not appear to have considered the possibility of expanding the scope of Audit Office investigations in a similar direction.¹²

In 1970, following the sudden resignation of the chairman of the Public Service Board, the government asked Arthur Gardner to take his place. Gardner welcomed the opportunity to return to a central role in public administration and, for the first and only time, the government chose the new Auditor-General from the ranks of the Audit Office staff. Bruce Hamilton had been the outstanding figure in the Audit Office for over a decade and his appointment was welcomed both inside and outside the office. However, the fact that he came from within the office and had close personal and professional ties with all the senior staff members, made it difficult for him to develop and follow an active program of reforms.

BRUCE HAMILTON

Bruce Hamilton was born in 1916 and educated at Bendigo High School. After completing his Leaving Honours Certificate in 1933, he was successful in the first public service exams held since recruiting had halted during the depression. Although he wished to work in Bendigo, he was told to join the Lands Department in Melbourne. He stayed with the Lands Department till 1941, working as a ledger clerk while studying accountancy by correspondence. After he completed his qualifications Bruce Hamilton requested a transfer

to the Audit Office as there were hundreds of returned soldiers ahead of him in seniority at the Lands Department so he had no chance of promotion.



Bruce Hamilton, Auditor-General, 1970-77.

After joining the Audit Office in 1941 Bruce Hamilton worked on the appropriations audit in Spring Street until 1947, when he began three years of field work. In 1950 Edwin Peverill appointed him as special duties officer, a position he continued to hold under Redvers Gillard and Arthur Gardner. In June 1958 Redvers Gillard wrote a reference in support of Bruce Hamilton's application to attend a session at the Administrative Staff College:

Experience of the last five years.

During this period, Mr. Hamilton has performed special duties at the direction of my predecessor and myself. In addition, he has carried out many audits both inside and outside the Treasury system of accounts. In respect of the Auditor-General's Annual Report to Parliament, for many years Mr Hamilton has been required to prepare analyses relating to and reviews of sections of the Treasurer's accounts for inclusion in the Auditor-General's Annual Report to Parliament. He has conducted inquiries on behalf of the Auditor-General into a wide range of questions within the field of public finance. For some time, he has been a member of the State Office Systems and Mechanisation Committee and, at the request of the Public Service Board, has attended classes in the subject of "Electronic Accounting."

Mr. Hamilton possesses a wide and varied knowledge of public finance and governmental and public accounting. In my opinion, his selection would be in the general interests of the State.¹³

Bruce Hamilton recalls that before his appointment as Auditor-General was confirmed, he had to have a formal interview with the Premier, so he put on his best suit and went to see Sir Henry Bolte. Sir Henry had no questions of substance, he just offered Bruce a drink, asked if he wanted to smoke, turned on a television and they sat and watched the cricket together for a while.

After retirement Bruce Hamilton made the considered decision not to maintain any close connection with the Auditor-General's office and its new head. He recalls that he never wanted the position to arise where he would, even to himself, harbour any criticisms or have the usual predecessor's thought, 'I wouldn't have done that'. He took full advantage of the chance to travel around Australia and overseas and to enjoy to the full his love of lawn bowls. In later years his wife suffered from ill-health and died in 1991. At the time of publication of this book, Mr Hamilton was the oldest living former Auditor-General, and generously contributed a wealth of memories to aid the author in his research.

During the terms of Arthur Gardner and Bruce Hamilton there was a lessening of the emphasis on continuous audits in the major departments and authorities. Gardner felt that many of the fixed location auditors identified too closely with the departments they were based in and tended to refer to their auditees as 'we' and not 'they'. He also felt that the permanent presence of external auditors led to a belief that internal audit checks were unnecessary. During the 1960s there was more emphasis in audit theory on the importance of internal audit and continuous external audit did not fit in with this. Arthur Gardner always told auditors that the first thing to look at was the internal check: what is the system of internal check and how well is it working? This was Arthur Gardner's philosophy and was also followed by Bruce Hamilton.

In order to reduce the emphasis on continuous audits, Arthur Gardner and Bruce Hamilton placed more weight on the role of the nine districts (later divisions) in the office. Each district, headed by a senior auditor (later directors), was allocated an area of the State for country audits and a portfolio of the large city audits. The divisions were encouraged to rotate their staff between the different audits for which they were responsible, with the idea of preventing the development of too close a relationship between auditors and auditees. In practice, however, the philosophy of continuous audits was so strongly ingrained in the office that it was not until the fundamental reforms under Brian Waldron that the practice of fixed location audits finally ended.

Nonetheless, under Bruce Hamilton there was less emphasis on the audit of the major government departments. This was primarily a consequence of changes he introduced in audit methodology, introducing written programs to follow and placing more emphasis on the preparation and auditing of balance sheets. Previously there had always been an auditor permanently based in all major departments, but Bruce Hamilton put the emphasis on the

Treasury audit on one hand and the statutory authorities such as the water trusts on the other. The statutory authorities had to produce financial reports and balance sheets, while government departments were not separate financial entities and did not produce financial reports until the 1980s, so they did not fit in with the audit emphasis of the period.

The shortage of qualified staff that had dogged the office during the 1960s continued and even worsened during Bruce Hamilton's term as Auditor-General. The problems specific to the Audit Office such as the increasing reluctance of young accountants to take on a job involving months of country work every year was compounded by a nation-wide shortage of accountants during the transition from the traditional professional-based accounting education to tertiary education that took place in the 1960s. As Jim Woods, the deputy Auditor-General at the time, recalls, the shortage of qualified staff meant that the Audit Office was stretched to the limits trying to fulfil its statutory responsibilities and this made it very difficult to be innovative.

A significant development during Bruce Hamilton's term as Auditor-General was the appointment of Flav Belli to establish an EDP (electronic data processing) section in the Audit Office. The role of the EDP section was to find out how to audit large computerised systems, train staff in computers and computer auditing and advise field staff on EDP issues. The office's first computer was a cheap Apple that was little more than a demonstration machine and Flav Belli loaded it with games to encourage people to use it. For auditing work in this period, the office used the huge, slow and cumbersome mainframe installed in the basement of the State offices in Macarthur Street. Flav Belli recalls that 'processing even the most mundane audit task seemed to take forever', and this led some staff to question the value of computer-based methodology over traditional manual procedures.

Since his retirement Bruce Hamilton has watched with some surprise as his successors have become prominent figures in the public life of the State. He had followed his predecessors in believing that the Auditor-General should have no dealings with the press. The few queries the office received from reporters were referred to the previous report to the Parliament or to the auditee on the basis that any matters not in the reports were confidential between the Audit Office and the auditee. Bruce Hamilton never talked to the press.

By the time that Bruce Hamilton retired in 1977 the pressures for change in the Audit Office were steadily building. Awareness of the progress in auditing theory in North America was gradually spreading, and many of the highly qualified younger staff members were becoming frustrated at the lack of recognition of these developments in the way they did audits. Similarly, although many government departments and statutory authorities were computerising their accounting systems, there was no computer in the Audit Office and little training to help auditors deal with the new problems involved in auditing computer based systems. These problems were exacerbated by the continuing rapid expansion of the public sector and the resulting rapid growth in the number of transactions of government departments and statutory authorities. The methods which had served the Audit Office well for many decades were beginning to break down and the office faced many challenges as it looked towards the 1980s and beyond.

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- ¹ *P.D.*, vol. 252, p. 1533, 6 June 1957. (Author's emphasis)
- ² Many boys born in 1900 were called 'Redvers' after Sir Redvers Buller, an incompetent British general during the Boer War.
- ³ PRO VPRS 2044, item 11, no. 11.
- ⁴ Auditor General to Secretary, Premier's Department, 22 June 1945; PRO VPRS 2043, item 31, no. 245.
- ⁵ Redvers Gillard, *Government Auditing*, Melbourne, 1965, pp. 6–7.
- ⁶ Gillard, *Government Auditing*, p. 11.
- ⁷ Gillard, *Government Auditing*, p. 23.
- ⁸ Gillard, *Government Auditing*, p. 14.
- ⁹ Gillard, *Government Auditing*, pp. 46–7.
- ¹⁰ Gillard, *Government Auditing*, p. 40.
- ¹¹ Report from the Committee of Public Accounts upon the Public Works Department, *VPP*, 1968–69, vol. 1; Report from the Public Accounts Committee upon the Control and Management of Stores operated by Government Departments, *VPP*, 1968–69, vol. 2. Note that for many years the names Committee of Public Accounts and Public Accounts Committee were used interchangeably.
- ¹² In 1968 Jim Wenmouth presented a paper to a government accounting discussion group arguing for a reduced emphasis on 'the traditional detailed audit' and a wider interpretation of existing audit legislation to 'utilise available staff in the most efficient and economical manner in the interests of the State'. However, he was instructed by Arthur Gardner to emphasise that these were his personal views and not the views of the Auditor-General. My thanks to Jim Wenmouth for bringing this paper to my attention.
- ¹³ Gillard to Secretary, Premier's Department, 12 June 1958; PRO VPRS 2043, item 44, no. 414.
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‘There’s not a lot of fun in auditing,
just a lot of hard work’: work and play in the
Audit Office, 1957–77

Flav Belli was born in Trieste in 1936 and came to Australia with his family in 1954. Flav had begun studying accounting in Trieste and was in his final year when the family left, but his studies were not recognised in Australia. When he arrived in Australia his written English was adequate as he had studied it at school (along with German and Latin), but his spoken English was poor and only gradually improved. Flav began studying accounting part-time while working in an electrical manufacturing firm, until he saw an advertisement for the public service exams. He felt he could do well as it was a written exam so he entered and passed in 1957. He was assigned to the Forestry Commission and had an odd experience when the personnel officer told him they had lost his exam papers and, as these had to be kept for the file, he was asked to redo the handwriting test. He only found out later that his results were so good they did not believe that he had sat the exam himself and were checking on whether the handwriting on the exam papers was really his.

Flav finished his accountancy studies in 1959 and felt he did not have enough opportunity to use his qualifications with the Forestry Commission, so he applied to join the Audit Office. However, his application was unsuccessful as the Audit Office was very much a ‘closed shop’ and almost all appointments and promotions were made from within. Flav was told that the only chance he had of getting in to the Audit Office was to appeal, so he appealed. It was very traumatic as the Auditor-General himself came to the Public Service Board to fight against the appeal. Redvers Gillard was a tall, imposing man with a powerful voice. He sat there banging the table with his fist, saying ‘Mr Belli doesn’t know anything about auditing.’ Even though the chairman pointed out that Mr Belli was more qualified than some of the other applicants, the appeal failed. Flav decided to appeal again and he prepared

very carefully beforehand so that he was ready for any question. But the only question Gillard asked this time was, 'Do you mind country work?' Flav replied, 'No', and he got the job.

Until the 1980s seniority was king in the public service. The Public Service List (universally known as 'the Jew's Bible', as it showed everyone's income and when they would be due for promotion) listed all public servants in order of seniority and ninety-nine per cent of promotions were based on seniority. The consequence of promoting on the basis of seniority and making almost all appointments and promotions from within the office, inevitably led to parochialism and reluctance to embrace change.

The non-competitive, age-based promotion system and the insular nature of the office probably contributed to the great sense of camaraderie recalled by all staff of the era. There was a great sense of security and belonging that has long since gone from the public service. Despite this, the structure of the office led to a degree of dysfunctionality as over half the staff spent most of their time on fixed location audits or on country work so that they rarely saw people outside their small audit team. Partly to overcome this many of the Audit Office's traditional social activities reached their height in this period.



*Four Auditors-General at the office Christmas party December 1970;
L-R: Edwin Peverill, Bruce Hamilton, Arthur Gardner, Redvers Gillard
(Bruce Hamilton.)*

Among the most popular social activities was the annual cricket match against the Treasury. Played in the first week of March, usually at the Albert Ground, the games dated back at least to the 1930s, as there is a file in the office giving teams, scores and (of course) financial statements from 1937 to 1969. Generally, staff members playing in the game were given the whole afternoon off, while the rest of the office went to watch the second innings.

Alan Meggs organised the team during the 1950s and each year he would write to Wilton Cove requesting permission for the staff to have time off. Normally, of course, this was automatic, but as Cove grew old and cantankerous, he would add little conditions such as, 'Approved, provided that suitable arrangements are made by the Salaries, Revenue and Premier's branches to bring their work within the time allowed by law'. In 1957 Alan Meggs noted on his letter that 'Mr Bolte has intimated his intention to play for the Treasury', and, even when his playing days were over, the Premier and Treasurer would normally attend as a spectator. The financial statement for the 1965 fixture indicates that the players and spectators consumed fifty afternoon teas, six dozen bottles of beer and three dozen bottles of soft drink. Throughout the 1960s the batting prowess of sub-district players Neville Eyre and David Morrison gave the Audit Office the edge over the Treasury, at least at cricket.

Another popular social occasion was the annual office picnic. The picnic was always held on the Monday after the first payday in February and organised during much of this period by Tom Keogh. Until 1970 the picnic was an all-male affair as they had started before there were any women in the office and the custom was maintained. Ted Bennett recalls there used to be a file with details of picnics back in the days when the office hired a horse and drag and loaded it up with a nine-gallon keg. In the 1950s and 1960s the picnickers would hire a bus and set off for the country or the beach, with the Mornington Peninsula being a popular destination, where they had a drink or two, ran the Audit Office Gift and had another drink. One retired auditor remembers Frank Scruby chasing young auditors out the front door of the Frankston pub, but they came back in the windows as quickly as he could push them out. From 1971 the picnics became family events held at weekends with all staff and their families welcome, and they were held at central locations such as the Zoo or the Botanic Gardens. The office picnics were a good means of getting to know others in the office at a time when many people were away on field work most of the time.

Following the retirements of Edwin Peverill and Wilton Cove, the office began to hold regular Christmas parties. Leon Fewster recalls playing Father Christmas at one of the first parties held at Churchill Park. In later years the Christmas parties were often held at Latrobe University.

Some office functions were celebrated with more exuberance than is generally associated with auditors. Several former staff members have clear memories of a group of auditors being chased up Collins Street by an irate restaurateur following a dispute over the ownership of a leg of lamb. But the most famous case occurred in the early 1960s at an office fancy dress party in the St Kilda Town Hall. An auditor who had come dressed as King Richard the Lionheart appeared on the front page of the *Herald* after enjoying the night rather too enthusiastically and spending a night in the cells as a result.



*A team of experienced auditors in action, early 1970s; L-R: Trevor Wood, Terry Lant, Kevin Sullivan, David La Franchi, Bob Bergmanis (rear), Lance Nixon, David Mackerell, Paul Kerr.
(Trevor Wood.)*

One of the great symbols of the unchanging nature of the public audit function in Victoria was the location of the office on the top floor of the Old Treasury building at the top of Collins Street. This building had been virtually unchanged for over a century and the Dickensian working conditions encouraged the continuation of Dickensian methods. It was difficult to begin to consider the problems computerisation would bring to auditing while working in an old-fashioned high-ceilinged room with a fireplace and a servant's bell. A move to new premises was probably a pre-requisite for change in the culture of the office.

In 1968 the Audit Office made the short move from the Old Treasury building to the top two floors of the new State office building at 1 Macarthur Street. The lift only went to the twelfth floor, so staff on the top floor had to climb the stairs. The caretaker's flat was on the thirteenth floor and many staff remember the noise in the school holidays when the caretaker's children were at home.



*The Audit Office's new premises in Macarthur Place,
diagonally behind its old home in the Treasury
Building, 1968.*

The Old Treasury building was a known fire hazard, but staff who worked there do not remember ever having any fire drills. However, they were held frequently at Macarthur Street, often resulting in utter chaos. In those days there was no security in government offices and during one fire drill Keith Raecke, one of the more elderly auditors, did not know a drill was in progress and walked into the office only to be startled to find not a soul in the whole Audit Office.

In 1931 Wilton Cove was promoted over many more senior auditors to the position of chief clerk shortly before his fortieth birthday, but following his retirement in 1957, his successors as Assistant Auditor-General (as the position was renamed in 1958), were chosen strictly on the basis of seniority. Inevitably, each new Assistant Auditor-General was around sixty years old when appointed and only held office for a short time before retirement. Herb Corben (1957–59) was a long-serving auditor of the SEC. He did much to ease many of the petty restrictions of the Cove era — head office staff felt they ‘did not have to walk around on tiptoes any more’. Herb Corben was succeeded by Allan Vanderstoel (1959–65), another popular figure in the office. Easy going and a bit of a prankster, he is best remembered for the time when he lost the leave records of all the staff in the Audit Office. Apparently the records were sitting on a waste paper basket when he left his desk for a short time and a cleaner threw them out. It was a massive job to reconstruct everyone’s leave entitlements from the salary records. Jim Wenmouth remembers being told that Vanderstoel jokingly asked John Whelan, ‘How many sick days have you had, you liar?’

Following Allan Vanderstoel's retirement in 1965, Bill Duncan and Ted Knight both served short terms as assistant Auditors-General before they also retired. During Bill Duncan's term the government amended the Audit Act so that the Assistant Auditor-General only had to take the oath of office once to serve as deputy for the Auditor-General when required. Previously he had had to take the oath every time the Auditor-General took a few days off work.¹ In 1969–70 Bruce Hamilton was Assistant Auditor-General for a short time before being appointed Auditor-General, being succeeded in the deputy's job by Jim Woods. The parallel careers of Bruce Hamilton and Jim Woods illustrate the power of seniority in the Audit Office before the 1980s. Hamilton was five months older than Woods and had joined the public service one month earlier. Throughout their lengthy careers, Hamilton was one place above Woods in the 'Jew's Bible' and consequently was one step ahead when it came to promotion.

The proportion of qualified accountants on the Audit Office staff continued to decline during the 1960s and this prompted several innovative recruiting measures. The office participated in the government's scheme of providing public service cadetships for university students, guaranteeing them jobs on the completion of their studies. This scheme resulted in a growing number of university graduates joining the office staff in the early 1970s. In 1960 Leo Considine had been the only auditor (apart from the Auditor-General himself) with a university degree, and there were only three graduates as late as 1970. By 1980, however, a majority of staff had degrees and by 1990 they were almost universal. Most significantly, among the new graduates to join the staff were the first women to work in the office as qualified accountants. Many of the old male auditors resisted this for a long time as they thought that women should make the tea rather than carry out audits, but after a while they learnt to make their own tea.

At about the same time as the first qualified female auditors came to the office, most of the 'machinists' or 'comptometrists' still on the staff were re-classified as audit assistants. In 1970 there were seven 'senior machinists' on the permanent staff of the office; two of these, Joyce Manton and Gwen Marks had started in the 1930s; Kathleen Doherty, and Una de Burgh had been with the office since the 1940s, and the other three, Olief Sorensen, Irene McEwan and Joyce Todd all had between nine and twelve years service. Other women, notably Myra Griffiths, worked in the office for many years, but, because they were married, the rules of the Public Service Board meant they were not allowed to be given permanent status. Over their years in the office, many of the machinists inevitably acquired vast experience of the audit process and, as their original function became obsolete, they were able to take responsibility for other aspects of auditing.

Gwen Marks' career had taken a different direction from the other machinists in the 1950s. After attending a course on accounting machine operation at Remington, she spent much of her time working on the Treasury audit at head office. At this time the Audit Office still made a complete duplicate set of the Treasury cash books and Gwen Marks' job was to enter all the transactions of the hand-written Treasury ledgers on the accounting machine. The duplication of the Treasury accounts had been criticised as long ago as the 1870s and

1880s, but had been justified by the Commissioners of Audit as necessary to avoid carrying the ledgers back and forward between the Treasury and the Audit Office. Since then the procedure had become redundant but was continued out of habit until 1964.

The ending of the duplication of Treasury accounts was the only major change in the process of the Treasury audit during the period 1957 to 1977. Flav Belli worked on the Treasury audit for much of the 1970s and he recalls that there was always a good working relationship between the Treasury and the Audit Office. The audit process was far from being a rubber stamp but it was essentially apolitical. Any issues would be the subject of negotiations, but the Treasury would eventually accept any requests by the Audit Office for modification of the accounts. In this era there was rarely political pressure to water down audit findings and the relationship between the Audit Office and the Treasury was highly professional. Bruce Hamilton remembers that he never had any problems with the government; he dealt directly with the Public Accounts Committee and between them they could normally fix up any problems.



Leon Fewster's famous victory in the Audit Office Gift. The stewards are still investigating.

The only significant criticisms made of the Treasury accounts in the Auditor-General's reports to Parliament came early in the period. In 1960 Redvers Gillard pointed out that the government was using loan money for maintenance and replacement works and that Loan Application Acts were being worded in such a way as to make this legitimate. Further, they made it almost impossible to ascertain the exact sums actually used for capital works as

against maintenance. The report specifically criticised the Lands Department for financing much of its current expenditure from loan funds.²

This report resulted in one of the very few instances in this period of the opposition using the Auditor-General's report to criticise the government. In the debate on the supplementary estimates for 1959–60, Clive Stoneham, the parliamentary leader of the Labor Party, berated the government for improper use of loan money. He concluded rather lamely that he would be happier if the Auditor-General's report could be tabled earlier so that members could see if the government was up to funny business before approving the estimates.³ The government did not respond to the political criticism, but it is significant that over the following years it observed more carefully the distinction between capital and current expenditure.

As discussed in the previous chapter, throughout the period 1957–77 the Audit Office remained wedded to traditional auditing methods. Over the same period most of the government departments and agencies audited by the office maintained their traditional accounting practices. Both auditors and auditees found this increasingly difficult as rapid growth in the economy, the expansion of the public sector and technological progress overwhelmed their existing systems.

An extreme example of the breakdown in traditional accounting systems was revealed at the University of Melbourne in the early 1960s. From the 1850s until the mid-1940s the university grew only very slowly and its financial systems were developed to suit a small and static institution. However, from 1951 the Commonwealth Government began to inject large sums into tertiary education and the university entered a period of rapid growth. The income of the university grew from £600,000 in 1945 to £7,800,000 in 1963 and the number of students rose from less than 5000 to 12,000 in the same period, but the accounting system was never updated to cope with this growth. By the early 1960s the accounts had become a total mess, with over 3000 separate accounts being operated in the university. The financial statements were hand-written on A5 sheets and were incomprehensibly complex. Audit Office staff recall that it was hard to audit the accounts as there were so many different accounts and trust funds and no-one really understood the system. The problems were exacerbated by the devolution of power in the university to faculties and departments headed by academics, who rarely had any training in administration or accounting. John Kehoe was working on the university audit one year when he noticed that there were piles of receipts from one faculty, but nothing had been banked. He quizzed the responsible professor about this and the professor reached down under his desk, pulled open a drawer crammed with cash, and said, 'Perhaps that's what this is then. I've often wondered.'

In 1964 Ted Bennett reported that his audit of the university's accounts had revealed many irregularities:

It was noticed that there was a marked upward trend in the sum of the 'Salary Advances' made to members of the University staff; that several of these advances appeared to lack proper authority; and that, in some instances, there was an indication of laxity in ensuring their

repayment. It was noticed also that, generally, appropriate action had not been taken for the recovery of many amounts long overdue to the University including, in particular, sums owing to the University by members of the staff.⁴

This report prompted a full-scale investigation into the financial administration of the university by the Parliamentary Committee of Public Accounts. This investigation revealed that the financial affairs of the university were effectively in the hands of a single accountant and that he had virtually lost control of the system. When questioned by the committee, the accountant put his finger on the crux of the problem: 'The trouble in the University, obviously, has been that we have just gradually gone on and on from what it was in the '30s.'⁵

This comment could be aptly applied to the Victorian public sector as a whole, and to a large extent the Audit Office itself.

These reports by Ted Bennett and the Committee of Public Accounts led to substantial reforms in the financial affairs of the university, but the reaction of the Audit Office reflects the thinking in the office at the time. Instead of carrying out a systems-based audit to see whether the university had developed an adequate system of internal controls, the Audit Office reverted to attempting a one hundred per cent transaction audit of the university. The auditors even had the key to the cash register and used to tally up the cash every evening. In some areas, such as long-service leave payments, they began doing a 'pre-audit', auditing the accounts before payment.

The finances of the university marked one of the first occasions on which the Committee of Public Accounts followed up on problems raised in the Auditor-General's report. During the 1950s and early 1960s many problem areas had been pointed out year after year by the Auditor-General, with no action being taken by either the government or the Parliament. From the mid-1960s follow-up action became common and the Committee of Public Accounts began to prepare an annual report commenting on all issues of concern raised by the Auditor-General. This was an important step towards the modern situation in which the Auditor-General and what is now called the Public Accounts and Estimates Committee work closely together in scrutinising the government and ensuring that public administration is being carried on 'efficiently, effectively and economically'.

Throughout this period about half the staff of the office were engaged on fixed location audits. These assignments could last for years and it was often difficult for the auditors to remember that they were external auditors and not members of the staff of the auditee. Neville Eyre recalls that his first fixed location was at the Lands Department where he was very much part of the system — too much in some ways he realises in retrospect. At one time when he was checking land acquisition details, he found that about one in four was wrong and the department expected him to correct them. He had to remind himself, and the department, that he was not there to do that, that he was not part of the system and not there to do their work. The SEC was notorious for its success in absorbing the external auditors into their system, trying to make them so comfortable that they would not make any critical

reports. It had a very strong internal audit and the temptation existed for the external auditors to accept without question the figures they were given.

One of the more difficult fixed location audits was the Education Department, which, like the University of Melbourne, experienced rapid growth in this period, putting great pressure on the department's financial systems. Leon Fewster joined the Audit Office as a temporary appointment in 1955 and was assigned to assist in the audit of the Education Department, where Bram Burville was the senior auditor. Leon was made permanent in January 1956 and for the next six years remained on the Education Department audit. In those days, before the advent of computerised systems, all teachers' salary and leave records were hand-written and the auditors were required to individually examine each record when promotions or annual increments fell due. When across the board award increases were granted by the Teachers Tribunal it was the auditors' responsibility to ensure that the correct classifications were recorded. At that time the Department did not have an internal auditor so it fell to the external auditor to undertake a one hundred per cent audit of the department's transactions.

One of the major problems with the audit of the Education Department was continual incorrect payments of teachers' salaries. This was a matter of comment in the Auditor-General's report to Parliament throughout the 1960s. In 1969 the report noted the 'high incidence of error' in salary payments and suggested that the department needed to introduce an internal check on expenditure. The report also noted the proposal to process teachers' salaries on the public service computer, but warned that there would continue to be problems from the large numbers of teachers and the complex award structure.⁶ The following year the report commented that 'the change to computer-based operation failed to eliminate the high incidence of error in the payment of teachers' salaries'. The reasons for this included poor training, incorrect preparation of input data, 'faulty communication within all areas of responsibility', the lack of sound internal control procedures, and deficiencies in the computer system.⁷

In spite of these strong words (which were as strong as in any Auditor-General's report from this era), it took many years for the problem to be satisfactorily resolved and it was the subject of several more scathing reports. In 1974 the report noted that a test audit of the student teachers' payroll 'showed a high incidence of error in calculations and disclosed a number of duplicate and even triplicate payments of studentship allowances'. Bruce Hamilton concluded:

I am of the opinion that for too long the problems that exist in the areas of the Department related to the processing of salaries have been allowed to persist and the need for adverse audit comment each year indicates the necessity for a thorough examination of the Department's administration as related to the expenditure of public funds through the various teaching service payrolls.⁸

To overcome a serious shortage of teachers in Victoria in the early 1970s, the government recruited teachers from the United States. While successful in its aims, the administration of the scheme was extremely loose and prompted another scathing report from the Auditor-

General. The details make startling reading even today, but the report is noteworthy as being one of the most thorough and detailed undertaken by the Audit Office in the era before the modern performance audit. After listing and explaining the extravagant waste and robbing involved in the recruitment scheme, the report sadly concluded, 'Generally, the requirements of the Public Accounts Regulations — designed for the protection of public funds — **were not observed.**'⁹

Until 1958 the supervision and audit of government stores had been a joint responsibility of the Audit Office and the Public Service Board. Inevitably the danger with this arrangement was that neither took the role seriously and this led to frequent problems throughout the 1950s. For example the Forestry Commission stores at Brookwood had developed a system of perpetual inventory in 1952, but a physical stocktake in 1957 showed that £36,419 worth of stores had disappeared. As a consequence of this and other scandals, the Audit Act of 1958 made the Audit Office solely responsible for the supervision of government stores. The Act laid down that the Auditor-General was to list all stores stolen or missing in his annual report, and during the 1960s and 1970s this provision was taken literally. In 1974 the list of losses and thefts from stores included '26 Longtailed Grass Finches', from the Entomology Field Station, 37 pounds of mutton from Castlemaine prison, \$5 worth of food from Latrobe University and escapees' clothing worth \$139 from four prisons. A more serious loss was 14,119 lbs of cotton yarn and 215 yards of calico from Pentridge Prison.¹⁰

For some years, the stores' audit was under the control of senior auditor George Liney. Liney was a popular figure around the office, appearing to be a confirmed bachelor until, when he was over fifty, he married Pam Puckett, an English girl famous for wearing thongs and even bare feet around the office. This was one of many romances in the Audit Office over the years, beginning with Alan and Julie Meggs in the mid-1940s and including George and Pat Rorke, David Sturgess and Corday Marsh, Joan and John Campbell, Pam Papatotiriou and Nick Daicos, and many others.

While many Audit Office staff spent years on fixed location audits during which they rarely visited 'head office', none was absent for as long as John Whelan. The son of a senior member of the office, John Whelan joined the staff in 1941 and after service in the navy his career followed a fairly typical pattern until 1962. In that year Redvers Gillard was asked by the government to second one of his staff to assist the police in the investigation of the collapse of the Payne's group of companies. Gillard called in John Whelan, told him, 'It takes a crook to catch a crook and you're the greatest racketeer we've ever had here', and then sent him off to the Victorian Police Fraud Squad. He was the first accountant appointed to investigate a company collapse by the Governor-in-Council, as previously it had always been done by a barrister. The investigation was successful and Whelan stayed on secondment to the Fraud Squad for the next thirty years until his retirement, although he always remained on the staff of the Audit Office and reported to the Auditor-General.

In his time attached to the Fraud Squad, John Whelan acquired an extraordinary knowledge of frauds, defalcations and swindles, and the crimes of arson and even murder

with which they were often associated. His stories could fill a book, but these accounts of his investigations of the Hampton Hospital and Melbourne Cemetery frauds give a good idea of the sort of work he did.

HAMPTON HOSPITAL

The Auditor-General [Redvers Gillard] rang to inform me that his daughter, a physiotherapist, was suspicious of the hospital manager.

The Auditor-General told me that although there was nothing ‘concrete’ to go on, it would be appreciated if I could find the time to investigate the hospital’s books and records.

The hospital manager resented my presence and reminded me that his books and accounts were regularly audited.

After a couple of days I was pleased to report to the Auditor-General that his daughter’s suspicions were justified.

The hospital matron quizzed me as to what was going on — she remarked that since my arrival the hospital manager had not presented himself at the daily staff luncheon.

Not once during my stay at the hospital did I contact or acknowledge the presence of the Auditor-General's daughter.

My investigation revealed, as well as some cash misappropriated, certain irregularities which, *inter alia*, showed that:-

- i) the staff were required when resigning to give a week’s notice. If on the 10th you told the manager you were resigning as from the 17th he would request you to write your resignation dating it from the 17th. The manager would then draw pay for the week ending the 24th (because of the week’s notice requirement) and misappropriate the final week’s pay.
- ii) the manager would draw salaries for nursing staff going on leave at their normal rate; this included penalties and overtime whereas he paid only the award wage — misappropriating the difference.
- iii) prior to issuing group certificates the manager would reduce the total of each individual’s tax deductions by £1 (\$2) and then add the total of the £s or \$s to his own deductions. By doing this he still balanced with the overall figures supplied to the tax department and ensured that he received a large tax refund.

Taking into account the number of and turnover of staff the manager had a lucrative sideline.

Examination of the records of the hospital the gentleman managed prior to the Hampton Hospital revealed similar undetected discrepancies.

Without the suspicions and persistence of the Auditor-General's daughter the misappropriations may never have been detected.¹¹



*John Whelan at the Fraud Squad office in Russell Street
Police Headquarters.*

MELBOURNE GENERAL CEMETERY

The police, acting on a complaint of an employee, requested that I examine the cemetery's books and records.

The secretary/manager of the Cemetery Trust was aged 77 and had been born at the cemetery. For 100 years his family had been associated with the running of the cemetery.

Although the accounts were regularly audited, it was soon obvious that there were irregularities in the books and accounts.

I contacted the Auditor-General and was informed by him that under the Audit and Health Acts (I think they were the correct acts) he authorised me to obtain possession of the books and records.

In relation to commercial enterprises of the businesses the secretary/manager was not willing to give me (or the police) possession of the books and records so it was necessary for the police to obtain a warrant under section 463 of the Crimes Act to enable them, on my behalf, to 'search and seize' business records. I usually gave the evidence in relation to the warrants and then attended the 'search and seizures'.

The office staff were 'too willing' to assist me in calling receipts to and adding the cash books. I refused their offer.

Once I had taken home all the relevant books and records the staff immediately realised that I must have noted some irregularities so they decided to have 'a night out'.

Around midnight a slightly inebriated young lady and gentleman turned up at Russell St to confess their wrongdoing. I was notified.

At Russell St police headquarters they related, *inter alia*,:-

- i) they knew their ‘number was up’ when I would not let them help me.
- ii) when they realised the secretary was defrauding the cemetery they decided to join the party.
- iii) they considered their actions were honest as they divided their ill-gotten gains three ways.

The secretary/manager had a house full of cash. He had stolen so much over the years that he didn’t know what to do with it all.

Some of the irregularities were:-

- i) receipts not brought to account
- ii) unreceipted cheques banked in lieu of cash misappropriated
- iii) graves removed and the sites resold
- iv) wreath bases resold to florists
- v) moneys paid for maintenance of graves not brought to account — there was no requirement for such moneys to be paid.

The secretary/manager and two staff members were found guilty. The judge intimated that had the main offender been younger he would have imposed custodial sentences. They were fined \$5000, \$3000 and \$2000.¹²

John Whelan frequently travelled with policemen on Fraud Squad operations. Once two policemen he was with had to interview a garrulous woman who was notoriously difficult to get away from. John stayed in the car and the police told the old lady he was a rapist they were taking to Melbourne for trial. After the police had been in the house an agreed length of time, John climbed out of the car and ran off down the road. The police saw him out of the window, jumped into the car and raced off after him with siren wailing. Around the corner they stopped and picked John up, relieved to get away from the woman.

Few auditors’ working lives had this sort of excitement. As Jim Woods puts it, ‘There is not a lot of fun in auditing — just a lot of hard work.’ Day after day, year after year, the Audit Office continued with the ceaseless grind of auditing the accounts of hundreds of government and semi-government bodies, from the Treasury in Spring Street to the courthouse in Ouyen. But every once in a while something out of the ordinary would happen. Graham Hamilton was doing the audit at the Carlton Police Station and found that some of the records had been stored in one of the cells. The sergeant offered to get them out, but Graham said that he would check them where they were. By the time he had finished, the shifts had changed. When he asked the new officer on duty to let him out of the cell, the

policeman just told him to calm down and the magistrate would deal with his case along with all the other drunks when the court sat.

¹ *P.D.*, vol. 281, pp. 2714ff, 2 March 1966.

² *Report of the Auditor-General*, 1959–60, pp. 8, 56–7.

³ *P.D.*, vol. 261, pp. 92–3, 20 September 1960.

⁴ *Report of the Auditor-General*, 1963–64, p. 41.

⁵ Report from the Committee of Public Accounts upon the Financial Administration of the University of Melbourne, 24 November 1966, *VPP*, 1965–66, vol. 1, p. 14.

⁶ *Report of the Auditor-General*, 1968–69, p. 65.

⁷ *Report of the Auditor-General*, 1969–70, p. 61.

⁸ *Report of the Auditor-General*, 1973–74, p. 61.

⁹ A summary of this report is in *Report of the Auditor-General*, 1973–74, pp. 61–2.

¹⁰ *Report of the Auditor-General*, 1973–74, p. 120.

¹¹ Notes written by John Whelan, August 2001.

¹² Notes written by John Whelan, August 2001.

15


Transformation, 1977-86

In the Legislative Assembly on 14 September 1977, Mr Peter Ross-Edwards, the Leader of the National Party, asked: ‘Will the Treasurer give consideration to giving the Auditor-General of Victoria similar powers to those which the Auditor-General in the Commonwealth now has to report on the efficiency or otherwise of the Public Service?’ The Premier and Treasurer, Mr Hamer, replied that he did not know what powers the Commonwealth Auditor-General had to audit efficiency, but he would consider the matter.¹ Several weeks later, Mr Mackinnon, the Liberal member for Box Hill, commented in a speech on the Appropriation Bill: ‘The work of Government is now far more complex than it was when the need for an Auditor-General was originally recognised. His duties should extend beyond pure fiscal control and include the extent to which Government services are being conducted efficiently.’²

On 8 December 1981 the new Premier, Lindsay Thompson, was confronted with a series of questions from opposition members on aspects of the Auditor-General's report. Mr Thompson became increasingly exasperated and finally exclaimed, ‘I am amazed at the extraordinary interest being taken by members of the Opposition in the Auditor-General's report.’³

These parliamentary episodes illustrate the two major and closely related features of the history of the Auditor-General's Office in the years 1977-86. The extension of the scope of public sector auditing beyond ‘pure fiscal control’ to encompass auditing for efficiency and effectiveness led almost inevitably to increased interest in audit reports and the use of reports in political debate.

In the three decades after the end of the Second World War, the Victorian economy and public sector grew enormously, but the structure of public administration and government

finance failed to adapt to the new environment. Most of the statutory and administrative framework of the State had remained fundamentally unchanged since the late nineteenth century. The Audit Office typified the whole public sector. The main statute governing the work of the office was the *Audit Act 1958*, but this act was merely a slightly amended version of earlier acts and, in its fundamentals, differed little from the original *Audit Act 1857*. With the exception of the Auditor-General, the staff of the office were public servants and worked under the rigid conditions of the Public Service Board, established in 1883 and fundamentally unaltered since that date. Recruited straight from school, officers rose gradually through a system governed by strict rules of seniority, rarely, if ever, changing departments, until being compulsorily retired on their sixty-fifth birthdays. The system gave stability and security, but discouraged innovation and talent. The majority of government departments and agencies had antiquated financial systems providing little useful information to Parliament or the public, no internal audit and minimal accountability.

Under Rupert Hamer the Liberal governments of the mid-1970s were highly progressive on many social issues, establishing the Environment Protection Authority, and Ministries for Consumer Affairs, Ethnic Affairs, Youth, Sport and Recreation, Conservation and the Arts. However, the reformist zeal did not extend to finance or public administration. The structure that had served a colony of one million people when annual government expenditure was about £10 million in the late nineteenth century, was beginning to show signs of collapse as population quadrupled and expenditure passed \$1 billion. By the late 1970s the Liberal government had been in office for nearly a quarter of a century and it was incapable of initiating reforms on the scale required. Consequently the first moves to review and reform public sector finance and administration came from the Parliament, notably through the work of the Parliamentary Public Bodies Review Committee. This was set up in 1980 with a brief to examine and report on the vast numbers of public bodies that dominated the Victorian public sector ranging from large businesses such as the SEC and the railways to myriad tiny water trusts, cemetery trusts and the like. The committee's first report found that most public bodies were established by administrative action rather than an Act of Parliament, and did not report to Parliament; most were not audited by the Auditor-General and some were not audited at all; few compiled annual reports and most of the financial information provided was incomprehensible.⁴ The second report was even more damning:

In summary it is the view of the Study Team that the Parliament of the State has, over the years:

- permitted the creation of so many Public Bodies that the task of managing them effectively is beyond the capacity of the Victorian Government
- promulgated and sustained a mass of legislation and regulation which is imprecise, inconsistent and antiquated
- failed to provide reporting mechanisms enabling judgements to be formed as to whether the people of Victoria receive value in exchange for the expenditure of public funds

- developed no consistent policies aimed at ensuring effective and efficient management of Public Bodies
- failed to update the role and responsibilities of public body auditors so as to provide advice to Government, Parliament and Public Body management.

The report recommended the repeal of all existing legislation setting out principles or practices concerning accounting, auditing and reporting of public bodies and the introduction of modern legislation encompassing a Finance and Administration Act, a Reporting Act, and a new Audit Act. The committee suggested that a central feature of a new Audit Act should be explicit provision for audits of the efficiency and effectiveness of public bodies.⁵

While the efficiency of the Victorian public sector became subject of debate in the early 1980s, it was not until the election of the Cain Labor government in April 1982 that an organised program of reforms began. In retrospect, the Cain government has been stigmatised by the financial disasters in the recession of the early 1990s, tending to overshadow its impressive record of reforms, including departmental financial reporting, program budgeting and freedom of information.

The Auditor-General's Office played a unique role in the process of review and reform of the Victorian public sector in the late 1970s and through the 1980s. Under the visionary leadership of Brian Waldron, backed up by the organisational talents of Alan Meggs and Flav Belli, the Audit Office began a process of radical reform, encompassing almost every aspect of the work of the office. This process not only transformed the office, but through the development of 'value for money' auditing, played a central role in the process of review and reform of the whole public sector. The list of innovations introduced during Brian Waldron's term as Auditor-General is enormous, with the most important including comprehensive auditing, the first 'value for money' audits, a complete change in the style of reporting, the embracing of new technology, recruitment of graduates, the end of fixed location audits and regular country trips, the contracting out of many small audits, and promotion by ability rather than seniority. Largely as a result of the introduction of value for money audits and the change in the format and style of reports, the Audit Office for the first time began to attract publicity and its reports became the subject of political controversy.

None of these results was anticipated when Brian Waldron was appointed Auditor-General.

BRIAN WALDRON

Brian Waldron was born in Melbourne in 1928 and educated at Mt Carmel College and St Kevin's College. He joined the public service in 1945 as a clerk in the Office of the Registrar-General and Registrar of Titles within the Law Department. He stayed with the department for thirty-two years, rising through the ranks to become Commissioner for Corporate Affairs in 1974.



Brian Waldron, Auditor-General, 1977-86.

While with the Law Department, Brian Waldron completed his accountancy qualifications, becoming an associate of the Federal Institute of Accountants in 1950. In the early 1970s he began part-time studies for a law degree in anticipation of a possible appointment as permanent head of the Attorney-General's Department. He completed his LLB in 1975. He was always closely involved with the professional activities of the Australian Society of Accountants (now CPAs Australia), serving as president of the Victorian division and holding various offices at national level including a term as president in 1991. From 1978 he was an ASA representative on the executive committee of the Australian Accounting Research Foundation, serving as chairman of the Auditing Standards Board in 1986-87. In his history of the Foundation, Geoff Burrows refers to Brian Waldron as a 'classically-aware committeeman' for his ability to come up with apt quotes from ancient Greek and Roman writers.⁶

As Corporate Affairs Commissioner, Brian Waldron was closely involved with the establishment of the Interstate Corporate Affairs Commission (a precursor of the Australian Securities and Investments Commission) and he became the foundation chairman. In 1976 he became involved in a public controversy on tax-effect accounting when he queried the legal status of tax losses. This proved to be the catalyst for a tightening of the accounting rules for tax-effect accounting.⁷ By 1977 he felt that he had achieved his aims at Corporate Affairs and he was ready for a change when the Auditor-General's position was advertised.

The staff of the Audit Office found Brian Waldron to be quiet, unassuming and pleasant to work with. But this mild-mannered man overturned the status quo and changed the face of public sector auditing in Victoria.

In 1986 Brian Waldron resigned as Auditor-General to take on a senior role with the ANZ Bank. He retired from the bank in 1990 and was subsequently involved in many activities of the accounting profession. He played a leading role in the establishment of the Australasian Council of Auditors-General, serving as inaugural executive director. In 1996 he was awarded the medal of the Order of Australia for his services to accountancy and the community.

Brian Waldron did not arrive at the Audit Office with an agenda for reform. Rather he looked closely at the way in which the office carried out its tasks and began intensive reading and research on modern auditing methods. He soon came to believe that public sector auditing could be radically improved. Two episodes in particular illustrated the deficiencies of the traditional methods. Every year the Education Department attempted to reclaim small amounts of holiday pay paid to studentship holders who went overseas and did not return. The legal process required the Auditor-General to sign an individual certificate for every defaulter — and there would be hundreds every year. As his arm ached with writer's cramp, Brian Waldron thought there had to be a more efficient way. On another occasion he was reading the report of an audit of some government stores and, although the financial details of the audit were correct, he got the feeling that the figures disguised the real situation. He called in the young auditor who had made the report and concluded that there was a need to do a complete audit as the whole stores system seemed incredibly inefficient. He realised that the Audit Office had traditionally been obsessed with financial irregularities that might cost the State a few hundred dollars, but took little or no notice of massive inefficiencies costing millions of dollars.

The principle that Brian Waldron developed to guide the reform process in the Audit Office was that the effectiveness of the office is directly dependent on, firstly, the efficiency of the audit process and, secondly, the quality and relevance of the information reported to Parliament. Throughout his term as Auditor-General the many changes he introduced all aimed at improving one or both of these central areas of the office's responsibilities.

The first area that required urgent attention was computerisation — both the use of computers in audit work and the auditing of computer systems. The need for a coherent approach to this issue was revealed in audit reports of the early years of Brian Waldron's term. By the mid-1970s many government departments and agencies were beginning to install computer systems. This was done with little or no central control or direction, leading to the use of a wide variety of hardware and software and no policies on internal controls. In 1978 the office made highly critical reports of the Country Fire Authority (CFA) and the

Public Trustee. The CFA had purchased a new computer system for \$800,000 and an audit review,

disclosed a number of areas where internal control was not satisfactorily exercised by the Authority. These included the following:

1. failure to undertake a complete feasibility study in order to justify the development of the various systems
2. establishment of only tentative and extremely informal criteria for the selection of the hardware and the engagement of consultants; and
3. the commitment of approximately \$800,000⁸ on computer equipment and services without the formal calling of public tenders.

The audit report on the computerisation of the Public Trustee's operations was even more damning, stating bluntly that the system had not worked since its installation and showed no prospect of working.⁹

When Brian Waldron took office he found that Flav Belli, then head of the 'EDP section', had clear ideas for the development of information technology in the Audit Office. At that stage only a handful of the staff had any idea of computers and computer auditing so there needed to be a huge educational program. The office purchased a computer training package from the Canadian Institute of Chartered Accountants and Brian Waldron insisted that 'all audit personnel, starting with Senior and Assistant Senior Auditors' should undertake the course. He argued that 'it is essential that we ... get ourselves up to date with Computer Auditing as soon as possible'.¹⁰ Flav Belli, Stan Naylor and Neil McAllister presented the courses to the whole staff in groups of about twenty and Flav recalls that most of the senior staff were very reluctant to learn and did all sorts of things to avoid doing the course, while the juniors took to the new ideas enthusiastically. After an introduction to computers and computing, the courses 'aimed at informing participants of ways to perform an audit of a computer system as well as to demonstrate how the computer can be used as a tool in the normal audit function'.¹¹

The Canadian training courses helped ready the office to embrace the microcomputer revolution of the 1980s. In 1982 the office bought its first two IBM PCs and two years later its first two portable computers. In the same year it set up the first substantial local area network in any government audit office in Australia. The network was developed by John Pinnis, who joined the Audit Office as director of the EDP Audit Division in early 1984. Pinnis was only thirty when he joined the office and his appointment was one of the earliest breaks with the previously accepted rule that appointments were made on seniority rather than ability. Under his direction, the office led Australia in the use of computers in auditing and in auditing computer systems.¹²

While the 1958 amendments to the Audit Act had ended the requirement for the Auditor-General to undertake full transaction audits, in practice most audits still involved an attempt

to check every detail. However, government had become too big for this to be possible and the auditors were 'starting at the bottom' with large organisations like the Education Department or the Melbourne and Metropolitan Board of Works and barely scratching the surface, possibly only being able to check five or ten per cent of the organisation's transactions. Brian Waldron (and many of the staff of the office) realised that this had to change and looked again to Canada to provide the model to follow. Flav Belli went overseas in early 1980 and on his return, produced guidelines for 'systems-based auditing', which were adopted as the official office methodology from 1 July 1980. As the name implies systems-based auditing involves identifying and documenting the critical systems of the auditee and carrying out a structured series of compliance checks to ensure that the internal controls were functioning effectively. In 1982 Brian Waldron stated:

it is the accepted practice of my office to review the accounting procedures and systems of internal control and, based on such review, to conduct such tests of the accounting records and supporting evidence as are considered necessary in the circumstances. The practice is, of course complemented by the requirement to determine whether there is full compliance with existing statutes and regulations.¹³

In 1981 Brian Waldron himself went on an overseas study trip. There were several major issues he wanted to research (including the financing of the New York World Trade Centre), but the most important result of his trip was the introduction of the Canadian concept of comprehensive auditing into the work of the Audit Office. Before his visit to Canada he had favoured the development of a performance auditing role for the office, but he saw weaknesses in the model adopted by the Commonwealth and did not have a clear vision of the model that should be adopted in Victoria. However, he was impressed with the system he saw in action in Canada and resolved to introduce a similar system. On his return he announced that he was 'firmly of the view that the Auditor-General should undertake this responsibility [performance auditing] as part of a Comprehensive Audit of bodies subject to his audit'.¹⁴

Essentially comprehensive auditing involved extending the principles of systems-based auditing to look at 'value for money' issues as they were termed at the time. This involved auditing the operations of government organisations in terms of their economy, efficiency and effectiveness. Brian Waldron explained the rationale for comprehensive auditing in his report to Parliament in October 1983:

A financial and compliance audit does not examine specifically whether wasteful practices exist in government operations (efficiency) or if management monitors whether organisational objectives are achieved (effectiveness). Comprehensive audits, which seek to address such value for money issues as well as financial and compliance issues thus have a broader scope than financial audits and can serve to make management more accountable for its activities ...

Comprehensive auditing is a logical extension of and not a replacement for financial auditing ...

Under the comprehensive audit approach, the Office would not be concerned with evaluating objectives given to organisations by legislation or ministerial directive. The main approach would be to evaluate the processes by which departments translate broad objectives into operational objectives, the adequacy of mechanisms set in place to monitor efficiency and effectiveness and the systems management used to achieve and monitor efficiency.¹⁵

The National Audit Office only began efficiency audits after being given an explicit statutory mandate to do so, but the Victorian Auditor-General's Office had no such mandate. The office had to use section 48 of the *Audit Act 1958* as authority to undertake value for money audits as this section enabled the Auditor-General to recommend methods for the 'better collection and payment of public moneys'. Brian Waldron argued that 'this provides the necessary legislative authority for the introduction of comprehensive auditing on a restricted basis', but admitted that 'full implementation of the methodology will require amendment to the Audit Act'.¹⁶ The lack of an explicit statutory mandate was not a problem in the early 1980s. The main reason for this was that the reports on the earliest value for money audits were presented in the early months of the Cain Labor government, so that any adverse findings could be blamed on the previous government. Further, on coming to government, the ALP had a commitment to increasing the efficiency and effectiveness of the public sector and it would have been politically difficult to refuse the Audit Office's claims for a performance auditing role. Two months after the election one of the new Labor MLAs argued that,

The Audit Office has an important role in implementing effectiveness reviews and not only the old accounting audits but also effectiveness audits. I welcome the determination of the Government to set objectives and functions for bodies and performance standards, the meeting of which can then be tested by effectiveness and efficiency audits.¹⁷

By the late 1980s the situation had changed, the Labor government felt less comfortable with the findings of performance audits and section 48 of the Audit Act became the subject of intense political controversy.

After several pilot projects, the first major efficiency and effectiveness audit undertaken by the office was a study of public sector works contracts. Carried out under the leadership of Leon Fewster, director of research and development, and Jim Wenmouth, director of special projects, the project began in 1981 and resulted in two reports to Parliament. Brian Seabrook, an engineer formerly with the Housing Commission, was seconded to the Audit Office to assist with the project. Although Seabrook had no accounting or auditing background, his expertise was vital for the success of the project and he introduced the engineering concept of critical path schedules that were adapted to make audits quicker and more efficient.

The first report on works contracts was presented to Parliament in June 1982. This report was based on a questionnaire sent to all government departments and authorities covering each major phase of activity expected during a substantial works project. The report showed

that most small government organisations lacked the technical expertise and resources to properly control their projects, while many large organisations had glaring deficiencies in their procedures and controls.¹⁸

The first works contracts report was relatively uncontroversial as it dealt in general rather than specific issues. The second report, presented to Parliament in June 1983, was very different. Based on studies of four major works projects, three of which had been extremely badly managed, it caused a storm of controversy when it was released. For the first time since the constitutional crises of 1865 and 1878, the Audit Office found itself in the centre of political controversy. This was an almost inevitable result of the decision to carry out efficiency and effectiveness audits. The media and the public had little interest if the Auditor-General qualified the accounts of a government authority for not allowing for depreciation or incorrectly valuing assets, but the new style of reports were hard-hitting, direct, and written in plain English, not accounting jargon. The issues they raised were straightforward and presented in a way that made it easy for parliamentarians and, as a consequence, the media to pick out the key issues.

The first case study in the works contracts project was on the construction of Footscray Technical School between 1976 and 1981. The study found that the project had been mismanaged from start to finish. Typical examples of the audit findings were:

- The long term need for a school to be located in the area was not properly investigated.
- The school site [on a former tip] had serious deficiencies which created major design, construction and maintenance problems concerning the school building.
- The Footscray Technical School Council did not have the technical, professional and administrative skills required to control the brief, oversee the consultants, and ensure the satisfactory design and construction of the school.
- Despite the lack of skills available to the school council, the Education Department did not exercise adequate management control over site selection, brief, design, tender call, construction, and contract administration.¹⁹

In addition to the major findings, the audit found numerous deficiencies in the design and construction work and in subsequent maintenance. The school was built on steel piles due to the instability of the tip site, but there were inadequate procedures to protect the steel piles from the corrosive liquids in the tip. Further, the fill materials generated poisonous and potentially explosive methane gas that could build up under the school. There were many faults due to lack of supervision during construction, including pop-up sprinklers placed in footpaths, no hot water connections to twenty-three sinks and mounds of earth and rubble on the tiny playground. The newspaper headlines almost wrote themselves and the press had a field day. So too did the Labor government, as the whole debacle could be blamed on the previous administration — but what would be the reaction when a value for money report criticised the incumbents?²⁰

The works contracts reports attracted many favourable comments from both public and private sector auditors. The Assistant Auditor-General of Canada, William Radburn, wrote to Brian Waldron that the reports identified 'serious problems and made meaningful recommendations in a clear, concise, forceful and yet positive manner'.²¹ Even more effusively, Frank Smith of the Melbourne office of Coopers and Lybrand commented that,

I thought the content and presentation absolutely first class. This is the sort of information which is so desperately needed by Government and others if we are ever to get anywhere in our efforts to get true value for the tax dollar. It made fascinating reading and you and your people are to be congratulated.²²

The third value for money special report, released in October 1984, covered the operations of government stores and departmental cash management. Inefficiency, poor financial management and defalcations at government stores had concerned the Audit Office for many years, but the old style of auditing had done no more than suggest that there were problems. The extent of the problems was only revealed by a detailed value for money audit. The findings covered every aspect of stores management, but perhaps the most revealing statistics were those on excess stock holdings. For example, the Police stores had enough handcuffs to last for 238 years at the current rate of issue, and the Education Department stores had stock of some cleaning materials to last over half a century. Waste and inefficiency on this scale had probably existed in the public sector for many decades, but it largely escaped public notice until the advent of value for money auditing.

A vital factor in the impact of the early value for money audits was the clear and simple language and presentation of the reports. In 1982, in one of the most significant changes made in Brian Waldron's term, the style and format of the Auditor-General's annual reports to Parliament on government departments and authorities were totally recast. Since 1857 the annual reports had grown in length as the role of government expanded and the number of departments and agencies grew, but the style and presentation remained essentially unaltered. The emphasis was on the presentation of financial statements, with minimal interpretation or analysis. With the sole exception of John Norris's strident warnings on rising debt levels during the 1920s, any comments or suggestions were buried amongst the pages of financial details and explanatory notes. The format positively discouraged readers; politicians had to dig deep to find debating points (they rarely did) and journalists to find a story (they never did).

In the introduction to his report on government departments presented to Parliament in October 1982, Brian Waldron explained the new format.²³ He pointed out that the detailed financial statements previously prepared by the Audit Office staff for inclusion in the report were properly a responsibility of management not of audit. With the support of the new Treasurer, Rob Jolly, departments were instructed to prepare their own financial statements to be presented to Parliament. The new style audit reports gave a brief statement of the role and functions of the department, an outline of its financial responsibilities, the scope of the audit, audit observations and recommendations, and the auditee's responses. The audit

reports were simple, clear and concise. Where the reports were satisfactory, this was explicitly stated; where they were adverse, this was stated in plain language, free from masses of financial detail or accounting terminology. Members of Parliament, journalists and the public all welcomed the new reporting format, but ministers of departments subjected to adverse reports were not so sure of the merits of the change. The format of audit reports adopted in 1982 has been maintained since then with only minor changes and has been a major factor in the increased public profile of the Auditor-General's Office.

Related to the changed formats of audit reports was the production of the Audit Office's first annual report in 1984. Before Brian Waldron's time the Auditor-General's reports to Parliament contained no information on the functioning of the office beyond the occasional sentence thanking the staff or pleading for more staff, but in the early 1980s the reports began to include details of the role, methodology and activities of the office. In 1983, in what the Audit Office saw as 'the most significant step in improving accountability of government departments and public bodies to parliament' the government introduced the *Annual Reporting Act 1983*, under which all public bodies had to produce reports and audited financial statements.²⁴ While many government departments and agencies had great difficulty in complying with the requirements of the act, the Audit Office set an example to the rest of the public sector with the clarity, accuracy and punctuality of its reports. From the time that John Olesky came to the office as corporate communications manager in 1988, the annual reports also became models of presentation and through the 1990s the office's reports won many awards for excellence.



Kim Nolan and John Olesky with yet another annual report award.

An important development made more necessary by the beginning of efficiency auditing was the introduction of greater planning into audits. Traditionally the office had budgeted time for transaction audits on the basis that they would take as long as the previous year, but it proved very difficult to anticipate the length of time an efficiency audit might take. Frequently things turn up to sidetrack the enquiry, or the auditors might only learn about key issues after the enquiry started. Brian Waldron asked Flav Belli to work on this problem and the result was the development of an Audit Management Information System (AMIS). This system allowed for the full management of an audit with time recording. For the first time the office had the basis of a proper billing system and was able to provide accurate estimates of audit times, budgets and so on. Naturally many of the long-serving staff members found it hard to accept the need to record their 'billable units' and, on country trips in particular, many officers only filled in their time sheets after they returned to Melbourne. However, after initial teething problems, AMIS became an integral part of office routine — to the extent that an administrative trainee, Glenn Graham, felt the need to announce in the staff newsletter 'that AMIS is not the ruling force in his life. Glenn claims he does not eat, wash, dress or conduct other personal activities in 6 minute intervals.'²⁵

In March 1981 the major accounting firm Touche Ross (now part of Deloitte Touche Tohmatsu) produced a report for the Public Bodies Review Committee on the *Audit and Reporting Responsibilities of Public Bodies*. Among many recommendations, the report suggested that the Auditor-General's Office should contract out some of its audits to private accounting firms.²⁶ The report suggested that this could allow the Audit Office to use its own staff more effectively, would utilise the expertise of private accounting firms and reduce costs, especially for country audits. Coming from a firm that would stand to benefit if its suggestion were adopted, this was naturally treated with some scepticism.²⁷ However, it was obvious that the Audit Office devoted a disproportionate amount of its resources to auditing tiny country water trusts, and in 1982 the office began to contract out some of these audits. In 1983-84, after a successful experiment in the Swan Hill area, 166 audits throughout the State were contracted out to forty-four private practitioners and the following year this was increased to 378 audits. Inevitably there were some teething problems with the new system, primarily with poor quality work from some practitioners, but overall it worked well and by the mid-1990s the office contracted out about three-quarters of all financial and compliance audits — although they accounted for only a small proportion of total public sector expenditure.

Brian Waldron's tenure as Auditor-General was a period of rapid change for the staff of the Audit Office. Many long-accepted methods and structures were questioned and changed and the office was a very different place in 1986 than it had been in 1977. The trend towards the employment of graduates continued and by the early 1980s all new audit field staff were graduate accountants. For the first time in the history of the office, unqualified officers were forced to move to other positions in the public service 'more suited to their skills'.²⁸ The insular nature of the office was broken down by a policy of staff secondment, with auditors from the private sector and the universities working in the office, while office staff spent

time with private firms, government departments and authorities, and overseas. For example, Terry Lant spent three months in 1984 working in the office of the Provincial Auditor of Ontario, Canada, studying value for money auditing with the world leaders in the field, and David Shand spent twelve months in 1986 as head of a unit in the New Zealand Treasury.²⁹ Significant secondments to the office included Margaret Crossley of Ernst and Whinney, who was contracted to perform the duties of a director of audit during David Shand's absence, becoming the first woman to head a division in the Audit Office, and David Nairn, of Deloitte, Haskins and Sells, who had extensive experience practising in Canada.

The rapid pace of reform in the Brian Waldron era inevitably encountered resistance from those who were comfortable with the old ways. Many changes could only be implemented after much persuasion, encouragement and lobbying and Brian Waldron is reported to have walked out of several meetings in frustration at the opposition he was encountering. However, most staff strongly supported the introduction of modern auditing methods. Brian Waldron acknowledges the vital support he received from Jim Woods (deputy Auditor-General 1970-78) and Alan Meggs (deputy Auditor-General 1978-84) in the transition period. Both gave invaluable advice, helped to promote the change of culture in the office, and used their great knowledge and experience of the ways of the office and its staff to water down opposition to reform.



Stalwarts of the office; L-R: George Rorke, Alan Meggs, Paul Krumins (rear) and Peter Rorke.

An important factor in promoting reforms in the office was the introduction by the Labor government of a 'Senior Executive Service' grade in the public service. This gave far greater flexibility in appointments and promotions and enabled Brian Waldron to make promotions

on the basis of merit rather than seniority. The most significant of these was the promotion of Flav Belli, firstly to chief director of audit in 1980 and then to Assistant Auditor-General in 1984. Flav Belli was the key figure in implementing the reforms that came from Brian Waldron's fertile brain. As Jim Wenmouth recalls, Brian Waldron always wanted things to happen yesterday, and Flav Belli made sure that they did. Another promotion that caused quite a stir in 1985 was the appointment of Russell Walker as a director of audit at the age of thirty-two after only nine years in the office.

In 1986 Brian Waldron left the office after being 'headhunted' by the ANZ Bank to head its internal audit section. He recalls that when the bank phoned him, he assumed that they wanted him to suggest possible recruits for the bank, but the tone of the conversation changed when the caller said, 'We don't want any names — we want you.' By the time Brian Waldron left, the Auditor-General's Office had developed a justified reputation within Australia and overseas as a leader in public sector auditing. The quality of the staff of the office was widely recognised — being renowned for speed (as shown by Noel McMahon's victory in the 1979 Stawell Gift), accuracy (typified by Paul Krumins's regular successes at national shooting championships) and the ability to identify critical issues (the best example being the discovery of a large gold nugget near Tarnagulla by Mike Corboy and Bruno Dinelli). Both the quality of the staff and the efficiency and effectiveness of the reforms to the office's systems and methodology would be fully tested in the next era of the office's history, as the Labor government fell into terminal decline and Victoria endured its most severe economic crisis since the depression of the 1930s.



Paul Krumins, skeet shooter extraordinaire.

In the early 1980s it was widely accepted that a new Audit Act would form part of the Labor government's program of financial and administrative reform. Two parliamentary committees recommended a new Audit Act, several Labor members spoke in favour of one, and the government implied that it was on the agenda. Brian Waldron and his senior staff strongly supported a new Audit Act to give a specific mandate for value for money audits, and remove many anachronisms from the existing act. In the expectation that the government would soon ask for submissions on a new act, Flav Belli drafted a model Audit Act designed to suit modern requirements. However, a new Audit Act was not an urgent priority for the government and, as the pace of financial reform slowed and a succession of crises swamped the government, the proposal slipped off the government's agenda.

Several years later Flav Belli met the Auditor-General of Bermuda at a conference. They compared notes on the antiquated audit legislation they had to work with and Flav mentioned that he had drafted new legislation that the government had ignored. The Bermudan asked if he could see the proposed Victorian legislation so Flav sent him a copy. Eighteen months later he got a letter from the President of the Legislative Council in Bermuda thanking him for his ideas and telling him they had been adopted in essence as Bermuda's new audit law.

Bermuda might have got a modern Audit Act designed to aid the efficient, effective and economical running of the Victorian public sector — but Victoria itself had no such act, and this soon became a major cause of political controversy.

¹ *P.D.*, vol. 333, p. 9517.

² *P.D.*, vol. 333, p. 10248, 12 October 1977.

³ *P.D.*, vol. 362, pp. 4403-7, 8 December 1981.

⁴ First Report to Parliament on the activities of the Public Bodies Review Committee, *VPP*, 1980-81 vol. 3, p. xiii.

⁵ Public Bodies Review Committee, *Report on a study of the audit and reporting responsibilities of public bodies in Victoria*, March 1981, pp. 1, 3-4.

⁶ Geoff Burrows, *The Foundation: a history of the Australian Accounting Research Foundation, 1966-91*, Melbourne, 1996, p. 119.

⁷ Burrows, *The Foundation*, pp. 58-9.

⁸ *Supplementary Report of the Auditor-General, 1977-78*, p. 13.

⁹ *Supplementary Report of the Auditor-General, 1977-78*, p. 85.

¹⁰ *Audit Bulletin*, no. 1, July 1977.

¹¹ *Audit Bulletin*, no. 7, August 1978.

¹² John Pinnis's career and contribution was discussed in Tony Thomas, 'Audit Trailblazer', *Today's Computers*, April 1985, pp. 99-101.

¹³ *Report of the Auditor-General*, October 1982, p. 171.

¹⁴ Comments by Brian Waldron on the second report of the Public Bodies Review Committee, 1981, unpublished paper in Audit Office.

¹⁵ *Second Report of the Auditor-General for the year ended 30 June 1983*, p. 5.

¹⁶ *Second Report of the Auditor-General for the year ended 30 June 1983*, p. 5.

¹⁷ Mr Ihlein (ALP Sandringham), *P.D.*, vol. 365, p. 1408, 16 June 1982.

¹⁸ Although this was the first in a series of special reports that numbered 75 by November 2001, it was unnumbered and simply titled, *Report of the Auditor-General*, June 1982.

¹⁹ *Report of the Auditor-General: Works Contracts Overview*, Second Report, June 1983, pp. 6-7.

²⁰ The Minister for Public Works, Jack Simpson, wrote to the Auditor-General welcoming the report as 'a constructive exercise to ascertain the adequacy of existing procedures' and gave his assurance that 'the recommendations will be heeded'. The minister carefully pointed out that all the problems pointed out in the audit were the fault of the previous government. Jack Simpson to Brian Waldron, 24 June 1983.

²¹ William Radburn to Brian Waldron, 29 July 1983.

²² Frank Smith to Brian Waldron, 15 August 1983. My thanks to Jim Wenmouth for bringing this correspondence on the works contracts reports to my attention.

²³ *Report of the Auditor-General*, October 1982, pp. 1-2.

²⁴ Office of the Auditor-General: Roles and Responsibilities, Nov 1986, p. 6. [This was a public relations pamphlet produced by the office.]

²⁵ *Current Account*, no. 4, January 1986. *Current Account* replaced the *Audit Bulletin* as the staff newsletter in November 1985.

²⁶ Public Bodies Review Committee, *Report on a study of the audit and reporting responsibilities of public bodies in Victoria*, March 1981, p. 219.

²⁷ Significantly the Touche Ross report also argued that public bodies should be allowed to appoint their own auditors, an idea that the office criticised as an attack on the Westminster system of accountability. This report marks the beginning of the belief in the office that the major accounting firms had an interest in diminishing the powers of the Auditor-General in the expectation of gaining more work for themselves in public sector auditing.

²⁸ *Annual Report*, 1985, p. 24.

²⁹ Terry Lant's report of his time in Ontario, 'Value for Money Auditing: a Learning Experience', provided much impetus for the development of performance auditing in the office. When David Shand left for New Zealand, his friends in the office presented him with two appropriate books, *Great Financial Disasters* and *I Walked With the Zombies*.

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The Auditor-General's Office and the fall of the Labor Government, 1986-92

Part One: Richard Humphry — agent for change

The Labor government elected in 1982 remained in office until October 1992, narrowly winning elections in 1985 and 1988. In its early years the Labor government established an impressive record of social, economic and administrative reform, but from the late 1980s it endured a succession of crises leading to a crushing defeat in the 1992 election. The government faced extraordinary problems, some of its own making, such as the scandal of the Victorian Economic Development Corporation (VEDC), unprecedented State budget deficits and a steep rise in State debt; and others over which it had no control — the stock market crash of October 1987, the National Safety Council fraud, the collapse of the State Bank and Tricontinental, the failure of the Pyramid Building Society, and the worst nationwide economic recession since the 1930s.

The last years of the Labor government presented the Auditor-General and his office with many difficulties and dilemmas. In its attempts to work through the unprecedented problems it faced, the Labor government resorted to some innovative financing and accounting techniques. Unravelling and explaining these proved a major challenge, and the Auditor-General's reports on them provoked angry responses from the government. Further, the extension of value for money audits (by the early 1990s normally referred to as performance audits) almost inevitably led to more confrontations with the government. In an adversarial political system any report critical of government will be seized on by the opposition, drawing the authors of the report into political debate. It is always tempting for the government to 'shoot the messenger' rather than listen to the message, and in the last years of the Labor government there were several attempts to suppress or delay audit reports.

It indicates a remarkable change in public auditing in Victoria that the Auditor-General played a central role in the fall of two successive governments, the Labor government in 1992 and the Coalition government in 1999. While in 1999 it was an attack by the government on the powers and independence of the Auditor-General that became a major election issue, in 1992 the relentless exposure of government financial and resource mismanagement in the Auditor-General's reports had an enormous impact and provided explosive ammunition for the opposition. It is ironic that it was the admiration and respect the Audit Office gained for its reports during the last years of the Labor government, that made the Coalition government's attack on the office so electorally disastrous.

During the 1980s there was a transformation in the public profile of the Audit Office. Before 1980 the media ignored the office and its reports — even reports that revealed waste, extravagance and possible corruption sank without trace. In complete contrast, by the late 1980s the Auditor-General's reports attracted front page headlines, editorials, and even television coverage. Brian Waldron's successors, Richard Humphry and Ches Baragwanath, became public figures in a way not seen since the days of Charles Ebdon and Hugh Childers.

Brian Waldron resigned as Auditor-General in June 1986 to take on a senior position with the ANZ Bank. His successor, Richard Humphry, had a very different background from any of his predecessors. Unlike all previous Auditors-General and Commissioners of Audit, Richard Humphry had spent no part of his career in the Victorian public service and, further, he had no experience of public sector auditing. Despite this, in his short term as Auditor-General Humphry did much to maintain the momentum built up under Brian Waldron, particularly in the area of performance audits.

RICHARD HUMPHRY

Richard Humphry was born in Perth in 1939. He left school at the age of fifteen to work at the Bank of New South Wales. While with the bank he completed accounting studies and rose to the level of branch accountant. During the mid-1960s he came to see computing as central to the future of accounting and joined the Commonwealth public service as a computer programmer. At that time the Commonwealth was in the early stages of introducing computer facilities. This led to a move to Canberra as a computer programmer in the Department of Finance, where he was involved in the development of some innovative systems, including a landline paper tape transmission. He led the team that developed the electronic accounting system enabling production of the Niemeyer statement giving a quick and accurate consolidated picture of the Government's overall expenditure and cash position. For ten years he worked in the Department of Defence on financial programming of the defence budget and forecast planning of weapons platforms.



Richard Humphry, Auditor-General, 1986-88.

After rising to the rank of assistant secretary, Humphry transferred to the Department of Finance in 1979 and over the following five years he was promoted to first assistant secretary, heading the financial management and accounting policy division responsible for the provision of computing services, administration of the Commonwealth financial regulations and the Audit Act, liaising with the Senate on estimates hearings and provision of advice to the Minister of Finance. In 1985 Richard Humphry became deputy secretary of the Department of Aboriginal Affairs, where he worked closely with the late Charles Perkins, the first Aboriginal to head a Commonwealth department.

While at Aboriginal Affairs, Richard Humphry was approached by a recruitment firm to be appointed to the position of Victorian Auditor-General. He was only forty-six at the time and felt that the government was taking a risk appointing him as there was no fixed term to the appointment and he could have stayed until he was sixty-five — if the appointment had not worked out, the government could have been stuck with him for a long time. Humphry was attracted to the position because he admired the Cain Labor government, which he saw as the most progressive in Australia at that time, and felt that he could contribute to the continued reform of public administration and government finance.

During the 1980s the Australian public sector became more closely linked with general accounting issues than in almost any other country. In particular, there was an increasing awareness of the need for common accounting standards for the private and public sector, a

radical step as it involved the acceptance of accrual accounting in government. Richard Humphry played an important leadership role in these developments, being the inaugural chairman of the Public Sector Accounting Standards Board from 1983 to 1987. Geoff Burrows, the historian of the Australian Accounting Research Foundation, lists Humphry as one of four critical figures ‘working to professionalise public sector standard setting’ in the 1980s (with another being David Shand, then a chief director of audit in the Victorian Auditor-General's Office).¹

In 1988 Nick Greiner, the newly elected Premier of New South Wales, asked Richard Humphry to become Director-General of the Premier's Department and head of the state's public service. He accepted because Greiner had a reforming spirit and gave a sense of wanting to get things done, so the position offered great opportunities for creative work. He retired from the NSW Premier's Department in 1994 when he was fifty-five and shortly after was appointed Chief Executive Officer of the Australian Stock Exchange. In addition to reshaping the ASX as the first demutualised and publicly listed stock exchange, he has been involved with many commissions, committees and reviews, notably a review of the Commonwealth government's \$5 billion outsourcing of information technology that revealed serious mismanagement and led to major policy changes by the Federal government. Richard Humphry received the Order of Australia in the 1995 Queen's Birthday Honours list.

When Richard Humphry became Auditor-General in 1986 he took over an office that, under Brian Waldron's visionary leadership, had stirred itself from a long slumber, shaken off the ideas and methods of the past and become a pace-setter in public sector auditing. Humphry readily acknowledged that he inherited an outstanding and enthusiastic staff, and the staff in turn responded well to his vigorous leadership style. Widely regarded as having the best public relations and marketing skills of any Auditor-General, Humphry raised the office's public profile to a level never envisaged by his predecessors. The increased public focus provided a strong incentive to produce high-quality reports that would stand up to the intense scrutiny they received.

In the first half of the 1980s the office had gained increasing experience in carrying out value for money audits, and by the time Richard Humphry arrived the staff were moving beyond the trial and error stage and were ready to carry out detailed probes into the efficiency and effectiveness of public sector management. The reports of several major performance audits that had begun before Brian Waldron's departure were presented to Parliament in late 1986, including reviews of the impact of court closures, the provision of housing to government employees and post-project appraisal procedures in the Public Works Department.² These reports were well received, although they were relatively uncontroversial and aroused little political debate. The report on court closures was one of the first reports on the withdrawal of government services from rural areas, an issue that was to loom much larger on the political agenda in the 1990s, while the reports on housing for

government employees and the Public Works Department exposed areas of waste and mismanagement that had existed for many years and could not be blamed on any one government.



Management meeting 1987 (clockwise from lower left: Terry Lant, John Olesky, Richard Humphry, Graham Hamilton, Russell Walker, Flav Belli, John Pinnis).

However, Richard Humphry initiated investigations that had major political ramifications. This was partly the result of the passing of time — the longer a government has been in office, the less it can blame mistakes and mismanagement on its predecessor — but it was also due to his perception in identifying key issues and his willingness to send his staff to investigate them.

The first special report presented to Parliament by Richard Humphry was on internal audit in the Victorian public sector.³ Auditors-General going back as far as Edwin Peverill had stressed the importance of an effective internal audit in government departments and agencies, but successive governments had done nothing to make it a reality. In 1983 the Cain government, as part of its reform agenda, set up a Bureau of Internal Audit to promote a strong internal audit function throughout the public sector. However, the Audit Office review team, led by Graham Hamilton, Leon Fewster and David Shand, found that the bureau had been starved of resources and executive support and consequently there had been virtually no progress in improving internal audit in spite of the government's supposed commitment to the cause. This report provoked the instinctive defensive reaction of bureaucrats exposed

to criticism — rather than listen to the message they tried to discredit the messenger. Graham Hamilton recalls that he and Leon Fewster were subjected to intense cross-examination designed to undermine the report, but their findings stood up to scrutiny and eventually prompted the establishment of effective internal audits in most government departments and public bodies.

While the report on internal audit stirred up the bureaucracy, the succeeding special reports on motor vehicles, foreign exchange transactions, and land utilisation, had a wider impact, attracting media attention and political controversy. The reports on motor vehicles and land utilisation were classic value for money audits, exposing waste and inefficiency in the government car fleet and in the management of government properties. In contrast, the report on the foreign exchange dealings of the government and its agencies was a venture into completely new territory.⁴ The Audit Office project team, led by Ian Claessen and assisted by Neville Norman of the University of Melbourne and Alan Knights of Price Waterhouse, investigated the efficiency and effectiveness of the government's foreign exchange management systems and procedures. Beginning with the State Electricity Commission in 1972, an increasing number of government authorities had been borrowing in foreign currencies to take advantage of lower overseas interest rates. However, the collapse in the value of the Australian dollar in 1986 made these loans very expensive and revealed the lack of risk management strategies for foreign currency exposure. Neither the State government nor the Audit Office had experience of foreign exchange dealings and the review reflected Richard Humphry's determination that the office should be at the forefront in dealing with new issues in public finance. The aggregate foreign exchange losses of the SEC, the Board of Works, the Port of Melbourne Authority and the State Transport Authority totalled \$713 million and this provided the press with dramatic headline opportunities, and even interstate newspapers featured the story.⁵

The major themes of Richard Humphry's term as Auditor-General were summarised in the report on government departments presented to Parliament in March 1987. The report emphasised the achievement of greater accountability in the Victorian public sector, together with more efficient resource management and more effective financial management. The most important single step towards achieving these aims would be the 'introduction of accrual accounting in the Victorian budget sector'. While the report praised the government for initiatives in improving the level of public sector accountability, it warned that there was an increasing number of public sector companies, trusts and joint ventures that were operating with inadequate reporting, auditing and accountability requirements. Significantly, the report singled out the Victorian Economic Development Corporation as an example of this dangerous tendency.

During the mid-1980s the office started to place a greater emphasis on undertaking special reviews covering a wide range of public interest issues across key areas of government. Among the earliest special reviews was a report on the level of cost recovery and government subsidy associated with public transport, tabled in the Auditor-General's *Second Report for the year 1985-86*. The results of special reviews have since become a key

output of the office, being reported each year to Parliament in the *Report on Ministerial Portfolios*, and these reports have consistently attracted large media attention.

Richard Humphry was always concerned to point out that audit reports,

are reports by exception and, as such, do not purport to be balanced accounts of the operations of individual government departments and public bodies. This is why these reports may seem to emphasise shortcomings without always giving credit for situations where no significant irregularities were observed or new initiatives taken.⁶

This point came out again in an interview published in April 1988. Richard Humphry noted that as an auditor his job was to ‘focus on the down side’, rather than to provide a balanced judgement of government. He went on to say that he believed that the Victorian government led the nation in administrative reforms, but warned that this made government departments and agencies more vulnerable ‘because they have not gone on in the traditional way’.⁷

Shortly after this interview, Richard Humphry took his reforming talents to New South Wales, leaving his successor to report on the consequences of a government that had not ‘gone on in the traditional way’ at a time when the state’s economy was about to enter into its worst recession since the 1930s.

Part Two: Ches Baragwanath — the faceless bureaucrat

When Richard Humphry’s prospective successor, Chesleigh Baragwanath, was being interviewed by a panel of senior ministers, he soon saw from their line of questioning that they had not been impressed with the publicity that the Auditor-General’s Office had received under Richard Humphry. Naturally, when the ministers asked him his view on the profile an Auditor-General should have, he gave them the answer they wanted to hear: that he saw the reporting role of the Auditor-General as being to Parliament not to the media. He followed this theme during his first press conference, when he stated that he aimed to carry out his duties as ‘a faceless bureaucrat’. This phrase attained a certain ironic humour over the following decade as Ches Baragwanath became the best-known Auditor-General in the history of the office and the first to be widely known, not just in political and accounting circles, but throughout the community.

Ches Baragwanath insists that his failure to remain a ‘faceless bureaucrat’ came about through simply performing his duties to the best of his ability. The circumstances of the era meant that many of his reports covered controversial topics and these were given great prominence in the media. Further, while the opposition had made little use of the Auditor-General’s reports during the first term of the Labor government (partly because problems revealed in the reports could be blamed on the previous government), from 1987 almost every report provoked a barrage of hostile questions directed at the responsible ministers and some led to full-scale parliamentary debates.

CHES BARAGWANATH

Ches Baragwanath (the surname is of Cornish origin) was born in Melbourne in 1935 and educated at the Christian Brothers College in Essendon. He was a prominent junior footballer, playing for North Melbourne under-19s and reserves until a knee injury cut short his career. In 1952 he joined the Commonwealth Public Service as a clerk in the Victorian branch of the Australian Audit Office, studying part-time for his accountancy qualifications while gaining experience on the audits of a large range of government bodies.



Ches Baragwanath, Auditor-General, 1988-99.

During the Vietnam War Ches Baragwanath spent over four years based in New York, auditing defence contracts. He recalls that American Defence Department accounting was slapdash and mistakes involving millions of dollars were not uncommon. On his return to Australia he was appointed chief auditor of the Northern Territory, arriving in Darwin only days after Cyclone Tracy had destroyed the city. He recalls, ‘When I arrived, I had no office and, for a bureaucrat, no files, no red tape. I spent the first three months there with 10 or 15 of my staff sleeping on the dining room floor. It was a bit like the Wild West.’⁸

Over the next two years he had to re-establish the Territory’s Audit Office from base level, rebuilding every aspect from staff and premises to equipment, records and systems. After a further period in Canberra he was promoted to chief auditor of the AAO’s Victorian branch, before moving back to Canberra in 1983, where he was involved in several major performance audits and the development of the office’s performance audit methodology.

In 1984 Ches Baragwanath returned to Melbourne as chief internal auditor of the SEC. He recalls that the SEC in the early 1980s was like 'the land of milk and honey', being grossly overstaffed and dominated by engineers who would 'build whatever you wanted and make it gold-plated'. Coming from the Commonwealth public service, he was impressed by the facilities and staff training programs. Since Monash's time the SEC had had a stronger internal audit than any other government authority, although Ches Baragwanath felt that the Auditor-General's Office had come to rely on it too heavily.

It was while he was sitting at his desk at the SEC in July 1988 that the Chairman of the Public Service Board called him to ask if he would be interested in applying for the position of Auditor-General.

Looking back on his term as Auditor-General, Ches Baragwanath feels that he was unlucky with the timing of his appointment. From the time of its narrow re-election in October 1988, the Labor government began to implode, and at the same time the Victorian economy collapsed into its worst recession for fifty years. Between 1988 and the final fall of the government in 1992 the Auditor-General was frequently accused of political partisanship, but, as Ches Baragwanath pointed out, an auditor is merely a historian reporting on past events and he could not be blamed if the reports showed there had been scandalous waste or gross mismanagement. As he put it, it was the events that were controversial, not the Auditor-General.

This was illustrated in the first major controversy that arose following Ches Baragwanath's appointment, namely the presentation to Parliament of a report on the VEDC in March 1989. The VEDC was formed in the late 1970s by a Liberal government but it was given a wider role in the Labor government's economic strategy after 1982, particularly in providing finance to innovative companies that could not obtain money from private sector lenders. However, as John Cain concedes in his account of his government, the operation of the VEDC was 'sloppy', its 'board was not as competent as it should have been' and 'management lacked the capacity to assess thoroughly the applicants for loans', with the result that the VEDC 'became synonymous with waste of public money'.⁹

From 1986 successive audit reports warned of performance and management problems in the VEDC, and in 1988 the corporation collapsed as a rapid rise in the number of non-performing loans led to a loss for the year 1987-88 of \$105 million. As the problems of the VEDC grew during 1988, the corporation's activities became the object of investigation by three separate teams of auditors: Arthur Young and Co. (the VEDC's internal auditors), Fergus Ryan of Arthur Andersen, who was commissioned by the government, and a large team from the Auditor-General's Office. John Misiano, an audit manager on the office's team, recalls that it was an extremely high-pressured situation, with the three teams of auditors camped in the VEDC's offices, working day and night, and often at cross-purposes as they represented different and conflicting interests.



The Auditor-General makes headlines 1991.

As the Auditor-General's report neared completion over the summer of 1988-89, there were several fiery meetings with senior public servants, but the office resisted pressure to tone down the audit findings. The findings were damning. Among many other things the report showed the VEDC had failed 'to follow the prudential requirements one would normally expect of a lending body'. The government, by giving the VEDC an expanded role and allowing it unrestricted access to borrowings, had contributed to its transformation from a prudent to an aggressive lender in a high risk environment. The growth of the VEDC was not adequately resourced, contributing to the decline in the quality of the assessment and monitoring of the loan portfolio. Due to serious deficiencies in the loan assessment process, financial assistance to industry was uncontrolled and additional funds were made available to borrowers who were already suffering financial difficulties. Many decisions by the VEDC Board were contrary to the recommendations of lending officers. The report commented, 'It can only be assumed that the Board either had available to it information which was not provided to audit, or that external decisions had influenced the final decision.' A final factor contributing to the impact of the report on the VEDC was the decision to include case studies illustrating the failings of the corporation's lending processes. After much debate in the office, it was decided to name the companies involved because the public's right to know outweighed any considerations of commercial confidentiality.

On Wednesday 22 March 1989 the special report, entitled *Financial Assistance to Industry*, was forwarded to the Speaker, Dr Ken Coghill, for tabling in the Legislative Assembly. As with the previous ten special reports tabled since 1982, the transmittal letter cited the *Audit Act 1958* as the authority for the submission of the report. However, when

John Olesky, the Audit Office's corporate communications manager, went to Parliament early in the afternoon to witness the report being tabled, he was called in to see the Speaker. Dr Coghill told John he would not table the report as he was concerned that not enough copies of the report were available, and, more importantly, that he was uncertain of the legal provision concerning the tabling and presentation of special reports.¹⁰

After a quick council of war at the Audit Office, John Olesky returned to Parliament with reinforcements in the form of the Auditor-General and his deputy. A strong exchange of views took place in the Speaker's chambers. Ches Baragwanath and Flav Belli argued that the report on the VEDC was the office's eleventh special report to be prepared under the authority of section 48 of the Audit Act and all previous reports had been tabled without question. Dr Coghill expressed concern that there had been leaks of the contents of the report, stating that this was improper as the report should be tabled in Parliament before any details were released.¹¹ He also felt that the timing of the report was questionable, as it was the last day that Parliament would sit before Easter, thus giving the government less chance to respond to criticisms.

Later in the day, Dr Coghill called a meeting of parliamentary party business leaders and proposed that the report could be tabled as a 'return', a formal procedure whereby the House can request a paper that is then 'returned' (that is, delivered). In this way the report was tabled without waiting for legal advice.¹²

Dr Coghill had been elected Speaker following the October 1988 election and he admits that he had previously given little thought to the position of the Auditor-General. From his perspective, he felt obliged to take legal advice on the legal status of the report and his obligations to table it. He sought the advice of the Clerk of Parliament and asked for legal advice, but he found that there was no mechanism for giving independent legal advice to the Speaker, forcing him to rely on the advice of the Solicitor-General. He had no contact with the Premier during the controversy over the tabling of the VEDC report and insists there was no political motivation in the delay in its presentation.

To the press and the opposition, however, the Speaker's actions suggested a desire to suppress a report that was highly damaging to the government. The opposition accused the government of wanting to delay the report until after a by-election in the marginal seat of Greensborough, or at least for long enough for the impact of the adverse publicity to be lessened by the Easter holidays.¹³

Several weeks later the controversy was reignited when the Solicitor-General, Hartog Berkeley QC, responded to the Speaker's request for an opinion on whether 'the provisions of the Audit Act in particular s.47 and s.48 provide the necessary statutory direction to enable special reports of the Auditor-General to be presented without the need for a prior resolution to be adopted'.¹⁴ Berkeley's opinion viewed the Audit Act as giving the Auditor-General a very limited audit role. The essence of the opinion was:

Giving the relevant legislation the most liberal construction possible the only function of the Auditor-General is in relation to the auditing of financial accounts.

The Auditor-General has no function in relation to the auditing of efficiency and effectiveness.

To the extent to which a report of the Auditor-General is a report about efficiency or effectiveness it is not a report within the meaning of the Audit Act ...

The Auditor-General has misunderstood his functions under the Victorian Legislation.¹⁵

This interpretation of the act was so narrow that it would not only prohibit any form of modern performance auditing, but would, for instance, have precluded John Norris from pointing out the dangers of excessive government borrowing in the 1920s.

The Solicitor-General's opinion attracted an immediate response from Ches Baragwanath. In a letter to Hartog Berkeley, he argued that the phrase 'better collection and payment of public moneys' implied some form of comparative reporting and 'in determining what is "better", I see myself as being obliged to consider whether current procedures and operations are the most efficient and effective and whether they provide value for money'. Further, he pointed out that Berkeley had not taken account of the 'common law concept of public sector auditing in terms of the Westminster convention that expects an Auditor-General to address issues of waste and extravagance of public moneys'. Finally, he argued that the opinion did not address the issue of public interest in the safeguarding of taxpayers' money.¹⁶

Writing to the Premier a few days later Ches Baragwanath outlined the course of events since 22 March and then gave his view of the Speaker's response to the legal opinion (given at a meeting on 1 May):

The Speaker informed me that following his consideration of the legal opinion he would expect me in future to provide him with advance copies of my reports in order that he may satisfy himself that they include no value-for-money issues.

Further he indicated that he felt it would be appropriate for the budget of my Office to be subject to his scrutiny to ensure that no funding was provided to undertake value-for-money audits.

In response I advised the Speaker that the above arrangements could be seen as an attempt to impinge on my independence, to censor my reports to Parliament and to curtail the future operations of my Office.¹⁷

The Auditor-General sent copies of this letter to the leaders of the opposition parties, Jeff Kennett and Pat McNamara. Dr Coghill received a copy of the letter on 2 May and, believing it misrepresented his conversation with the Auditor-General, he summoned him to the Speaker's office and later met with the Premier, Jeff Kennett and Pat McNamara before making a statement to the House after Question Time. There followed the predictable parliamentary reaction. Ironically, in their enthusiasm to take political advantage of the perception that the Labor government was attempting to silence the Auditor-General, both opposition leaders made comments that were to haunt them in the following decade. In one of his most eloquent parliamentary speeches, Mr Kennett said: 'I believe and accept the words of the Auditor-General, because he is a man of great independence; he has an office of independence, and he is accountable to no-one but Parliament.' Further, he proclaimed that

‘Parliament and the public demand that no-one in any way censors the Auditor-General’, and ‘The Auditor-General carries out audits not only on behalf of Parliament but also, importantly, on behalf of the people of Victoria. They demand thorough scrutiny and open government.’¹⁸ Mr McNamara followed, arguing, ‘The whole purpose of the Office of the Auditor-General is to ensure that there is an individual who is at arm’s length from government, who is not bound or subservient in any way to the government.’

The position of the opposition leaders was endorsed by the press, with strong editorials in the metropolitan dailies arguing that, whatever the rights or wrongs of the Solicitor-General’s opinion, the government should act immediately to clarify the situation and ensure that the Auditor-General’s right and duty to conduct performance audits was enshrined in legislation.¹⁹ Otherwise, as the *Age* pointed out, it appeared that ‘the Speaker was trying to protect executive government from embarrassing disclosures’.



Management team 1989, L-R: Graham Hamilton, Joe Manders, Ches Baragwanath, Russell Walker, Flav Belli, John Kehoe.

At the same time as the debate on the power of the Auditor-General to conduct value-for-money audits, another issue arose that threatened the work of the Audit Office. In April 1989, office staff were denied access to some records of both the Comptroller of Stamps and the Commissioner of Taxation on the grounds of secrecy provisions contained in their enabling legislation. Although the office’s right of access had never before been questioned, the actions of the two government agencies were again supported by a legal opinion provided by the Solicitor-General.

However, in contrast to the Coalition government in the 1990s, the Labor government in 1989 retreated rapidly from its position of appearing to attack the powers and independence

of the Auditor-General. Speaking on 2 May after the opposition leaders, Mr Cain argued that he welcomed scrutiny of his government and said he would ‘examine the best method to be adopted to ensure that there is a capacity for the proper examination of efficiency and effectiveness’.²⁰ Although the Auditor-General’s Office wanted a full review of the Audit Act, with the aim of completing the reforms of financial legislation begun by the Labor government in 1983, the government chose to amend the existing act. The *Audit (Amendment) Act 1990* specifically gave the Auditor-General power to conduct performance audits to determine whether public bodies were achieving their objectives efficiently, effectively and economically and also gave him unrestricted access to information otherwise subject to secrecy provisions. Since the 1850s it had been generally accepted that the Auditor-General had no role in policy issues, but for the first time the amendment specifically precluded the Auditor-General from commenting on the merits of the government’s policy objectives and attempted to define the boundaries of ‘policy’. The amendment also provided for the appointment of an external auditor to conduct a performance audit of the Auditor-General at least once every three years and specifically laid down that the Auditor-General should apply auditing standards issued by the professional accounting bodies — measures fully approved of by the Audit Office.

Significantly, in the months between the debate on the Auditor-General's value-for-money powers and the passing of the amendments to the Audit Act, there were no further attempts to delay the tabling of audit reports, even though they became increasingly critical as the government’s problems multiplied during 1989 and 1990. Ken Coghill recalls that the events of 1989 had led him to think seriously about the role of the Auditor-General, the Auditor-General's relationship with Parliament and the executive and the importance of a role for Parliament independent of the government of the day. In Dr Coghill’s earlier political career he had accepted the view of politics as a polarised fight between government and opposition, but he came to see that Parliament has a vital role as an independent institution and the Auditor-General is central to the maintenance of Parliament’s control over the executive.²¹

From the point of view of the Auditor-General’s Office, the audit of the VEDC and the subsequent controversy over the tabling of the report were the dominant events of 1989, but it was only one of a series of cataclysmic events that struck the Victorian government and economy during 1989. These included the revelation of the extraordinary National Safety Council frauds, the collapse of the Tricontinental merchant bank and the subsequent collapse of the State Bank, a rise in interest rates to record levels and a sharp downturn in the Australian economy. All these things placed extraordinary pressures on the State government’s finances.

Nineteen eighty-nine was cruel to Victoria and its government, but the opening year of the new decade was worse. The year 1990 was surpassed only by 1893 as the most disastrous year in the history of the State. The forced sale of the State Bank and the failure of the Pyramid Building Society and other Farrow companies, were only the most dramatic catastrophes in a year in which the state’s economy ground to a halt and unemployment rose to its highest level since the 1930s. The costs of the State Bank collapse and the

government's commitment to Farrow group depositors, falling taxation revenue, reduced receipts from the Commonwealth and high interest rates, combined to put the government's finances under great pressure, and forced the government to adopt desperate expedients in its attempt to maintain its programs with reduced income. In a similar crisis in 1893 the Commissioners of Audit had failed in their responsibility to report fearlessly to Parliament and the people on the true state of Victoria's financial situation. The same accusation could not be made of Ches Baragwanath and the Auditor-General's Office in the early 1990s.

The Auditor-General's *Report on the Treasurer's Statement* for the year ended 30 June 1990 was the most devastating critique of government in the history of the office. The essence of the report, produced by a team headed by Russell Walker and including Mark Strickland and Steve Mitsas, was captured in the summary of major audit observations presented at the beginning of the report:

CURRENT YEAR'S FINANCIAL RESULTS

- The overall deficit of the Consolidated Fund for the year was \$1.4 billion.
- Recurrent expenditure of \$432 million, including interest charges, was financed from borrowings.
- Expenditure of \$100 million on finance charges was incurred without parliamentary authority.
- Significant State financial obligations, the settlement of which should have been recorded in the Consolidated Fund, were instead transacted outside the Consolidated Fund by public bodies.
- The Government reacted to severe cash liquidity difficulties in 1989-90 with a range of [unorthodox] measures.
- Short-term financing cost the State \$70 million, compared with \$6 million in the previous year.
- The impact of interest costs of \$122 million on long-term borrowings was deferred to future years.

BUDGET SECTOR FINANCIAL COMMITMENTS

- During the year, 17 per cent of available revenue was used to meet finance charges.
- Artificial arrangement, involving the Melbourne and Metropolitan Board of Works, used by the Victorian Development Fund (VDF) to obtain funds from private sector managers of \$870 million.
- Illegal issue by the VDF of Treasury Bills totalling \$316 million.

ANALYSIS OF CONSOLIDATED FUND RECEIPTS

- An urgent need exists for the Government to undertake a review of its revenue management practices, given the substantial cash flow difficulties encountered during the year.

ANALYSIS OF CONSOLIDATED FUND PAYMENTS

- Operating expenses of \$300 million were classified as ‘works and services expenditure’ and funded from capital receipts, including borrowings.
- The acquisition by the Government of additional equity in the Flexible Tariff Management Unit Trust was not funded from the Consolidated Fund and thus was not subject to parliamentary scrutiny.

OTHER MATTERS

- Finance charges of \$35 million, paid from the Consolidated Fund without parliamentary authority, have not been acquitted.²²

This summary illustrates the major concerns of the Auditor-General with the financial operations of the Labor government from 1989 to 1992: that financial transactions were being made in such a way that they could avoid the scrutiny of Parliament; that the continued use of cash-based accounting allowed the government to bring forward revenue and defer expenditure to give a more favourable picture of the financial situation; that borrowings and the proceeds of asset sales were being used for current expenditure; and that debt was rapidly approaching unsustainable levels.

The issues in the summary were analysed in great detail in the body of the report. The case of the issue of Treasury Bills by the Victorian Development Fund illustrates the complexity of the government’s financial arrangements and the forensic skill required to unravel them during audit.²³

1.5.37 In 1989 the Victorian Development Fund (Treasury Bills) Regulations were proclaimed under the Public Account Act. The Regulations provide that, inter alia:

- the Treasurer may issue Treasury Bills to relevant authorities **for deposits lodged** with the Cash Management Account or State Development Account;
- Treasury Bills are transferable by delivery; and
- the principal and interest moneys secured by Treasury Bills are payable to the holder.

1.5.38 During 1989-90 the VDF, on behalf of the Treasurer, issued Treasury Bills totalling \$3.4 billion, part of which was on-lent to the Consolidated Fund.

1.5.39 An audit review of arrangements relating to the issue of Treasury Bills raised a number of significant concerns which are discussed below.

Artificial arrangement to obtain funds from private sector fund managers

1.5.40 The issue of Treasury Bills and their subsequent transfer by relevant authorities results in the State being indebted not only to public bodies but also to private sector fund managers approved by the Treasurer to deal in such instruments. The private sector fund managers approved to date are those which hold funds invested by public sector bodies.

1.5.41 As indicated previously the issue of Treasury Bills is restricted to deposits received from relevant authorities. **A review of the issue of Treasury Bills disclosed that the VDF**

had entered into an artificial arrangement with a relevant authority, namely the Melbourne and Metropolitan Board of Works (MMBW).

1.5.42 The process used was as follows:

- The VDF issued Treasury Bills **without receiving a deposit of funds** from the MMBW;
- the MMBW immediately transferred the Treasury Bills back to the VDF;
- the MMBW received a token amount by way of commission from the VDF for participating in this arrangement; and
- the Treasury Bills were then transferred by the VDF to private sector fund managers.

1.5.43 The total value of Treasury Bills which were involved amounted to \$870 million with the MMBW only receiving \$13,757 for its participation.

1.5.44 In audit opinion, the above arrangements were entered into so that Treasury Bills could be issued to and deposits received from the private sector fund managers while giving the appearance that the VDF had complied with the requirements of the Regulations.

1.5.45 Subsequent to audit raising this issue, the Department of the Treasury has advised that the transactions in question have been stopped and that it will ensure the establishment of alternative distribution arrangements for Treasury Bills.

Another issue involving less money but with major political ramifications was what became known as the ‘\$35 million interest rate swap’. This complex transaction involved the Treasury and a financial institution in an exchange of two streams of interest payments. The exchange involved an up-front payment of \$35 million by the financial institution. When the audit team, headed by Russell Walker, analysed the transaction, it came to the conclusion that the \$35 million payment constituted a borrowing, which was used to meet interest payments and was netted off within the Consolidated Fund against such payments. Treasury did not accept this view of the transaction and Russell Walker recalls going to Treasury to be grilled by a room full of senior officials. The Treasury arguments provided no basis for audit to revise its opinion, and the Auditor-General refused to acquit the Treasurer for the \$35 million because it represented ‘interest charges which were paid from the Consolidated Fund without parliamentary authority’.²⁴

Following the Auditor-General's report on the interest swap transaction, the Economic and Budget Review Committee of Parliament made a detailed investigation of the issue. The Treasury claimed the support of several legal opinions for its view that the transaction was not a borrowing, but it refused to give the committee access to one of these, while the others appeared to give only qualified support for the Treasury's position. When questioned on the legal opinions, Russell Walker replied,

The opinion was not conclusive as it did not refer to the economic substance of the transaction, only looked at its legal form and in addition the opinion was not expressed whether the transaction constituted borrowings for any other purpose than the Commonwealth-State

financial agreement ... We believed that the substance of the transaction is the final determinant of how the transaction should be disclosed in the Treasurer's statement and due to the financial obligation which arose as a result of the up-front payment we regard that as a borrowing.²⁵

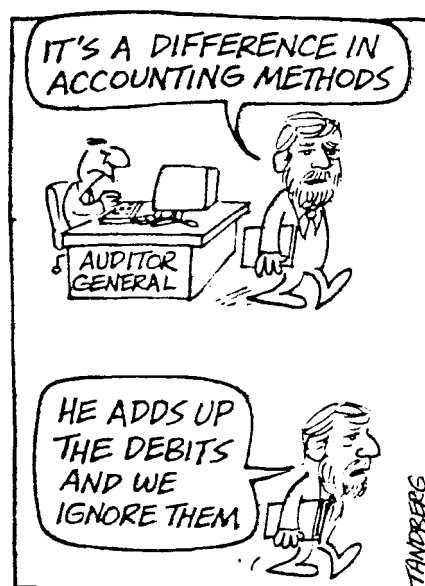
The committee concluded that conflicting legal opinions made it impossible to determine whether or not the transaction represented a borrowing, but strongly supported the Auditor-General's conclusion that the accounting treatment of the transaction had been illegal. The government attempted to pass legislation validating the transaction, but this was rejected by the Legislative Council and it was not until after the change of government in 1992 that the situation was resolved.

Another issue that led to confrontation with the Treasury in 1990 was the use of sale and lease-back arrangements to finance the Public Transport Corporation's rolling stock. The Treasury classified these arrangements as operating leases and did not include them in the Treasurer's statement as budget sector borrowings. However, the Auditor-General's Office disagreed with this view, arguing:

The lease arrangements, in substance, have not substantially transferred the risks and benefits incidental to ownership of the asset to an external party, but have committed the State to future financial obligations. In audit opinion, having regard to the economic substance of the transactions, the leases are simply another form of borrowing and should have been taken into account for Loan Council purposes and reported as borrowings in the Treasurer's Statement.²⁶

The Auditor-General's 1990 *Report on the Treasurer's Statement* attracted much attention in the press, receiving front-page coverage in all metropolitan and regional daily newspapers. The coverage led the Audit Office's in-house journal to ask, 'did you ever think you would see the day when the popular media would be featuring articles on the distinction between operating and finance leasing? It seems the Auditor-General's report is putting government accounting on to the front page of the national press.'²⁷

In its reports over the next two years, the Auditor-General's office continued to catalogue the failings of the Labor government. The reports on the government's finances for 1991 and 1992 followed that of 1990 in relentlessly revealing the extraordinary steps the government took in its efforts to disguise the full extent of the collapse of the State's finances. These reports were supplemented in successive reports on ministerial portfolios and in a series of special reports that revealed further failings of the government in specific areas. The most significant of these were *Alfred Hospital* (Special Report no. 12) May 1990, *Met Ticket* (Special Report no. 15) November 1990, and *Bayside Development* (Special Report no. 18) May 1992. These reports too were picked up by the press and the opposition and the incontrovertible evidence they presented of gross mismanagement contributed to the rapid decline in the government's political fortunes.



Tandberg summarised the issue between the Auditor-General and Labor Treasurer Tony Sheehan, 7 May 1992.

(Reproduced courtesy Ron Tandberg and the Age.)

In spite of the many reports presented to Parliament by the Auditor-General illustrating the financial mismanagement of the Labor government and warning of the possible long-term consequences of escalating debt, some critics have claimed that he and his office should have done more to alert the government to 'potential financial risks'. In particular the office has been criticised for 'the failure of [its] early-warning radar ... to intercept the single biggest financial disaster in the state's history, the billion-dollar losses of the State Bank's Tricontinental offshoot'.²⁸ Those who suggest the Auditor-General should have done more to warn the Labor government have clearly not read any of his reports between 1988 and 1992 as they appear as one continuous, ear-shattering, alarm whistle. Suggestions that the Auditor-General should have prevented the collapse of Tricontinental are even more far-fetched, as he had no audit responsibilities for either Tricontinental or its parent, the State Bank, beyond an obligation to approve any new auditor the State Bank chose to appoint. Brian Waldron recalls that in the early 1980s he wrote a report on public bodies that the Auditor-General did not audit, including the State Bank. He argued strongly that he should audit the bank as he was aware of audit problems, most notably that the same firm did the internal and external audits. However, there was political opposition to this suggestion and nothing came of it — leaving the State Bank and Tricontinental like leaking ships far from shore, with their crews smugly content that they had seaworthiness certificates in the form of audit approval from leading firms of chartered accountants.²⁹

In February 1990 the State Bank Group reported that it had doubtful debts of over \$1.3 billion and on 11 April the Legislative Council asked the Auditor-General to 'inquire into the financial affairs of the State Bank Group insofar as they relate to or impact upon the administration and financial position of the State of Victoria'. The report was completed and presented to Parliament before the end of May, but it was notable more for what it did not

say than what it did. The main reason for this was the determination of the Treasury, supported by the Solicitor-General, to obstruct the inquiry as much as possible. The Audit Office was refused access to the board minutes and other records of the bank and this restricted the report to being little more than an analysis of the obligations of the Treasury to the State Bank and Tricontinental. The report emphasised that the Auditor-General was **not** the auditor of the State Bank and frequently noted 'without access to the Bank's records it was not possible to establish ...'.³⁰

The refusal to allow the Auditor-General to make a proper inquiry into the failure of the State Bank appears to have been due to the instinctive desire of bureaucrats to avoid scrutiny. From the government's point of view it was a serious misjudgement. The opposition and public opinion inevitably blamed the government for the bank's collapse, and the obstruction of the Auditor-General's inquiry naturally gave the impression the government had something to hide. Although the subsequent Royal Commission exonerated the government from responsibility, making no adverse findings against any minister or senior officer and laying the major blame squarely on the directors and management of the State Bank and Tricontinental, it did not complete its report until August 1992, by which time the general belief that the government was to blame was too deeply ingrained to be easily erased.³¹ If the Auditor-General had been allowed to make a proper investigation in early 1990, the political advantages to the government might have been enormous, but the innate secretiveness of the bureaucracy prevented this outcome.

For the Auditor-General's Office the most obvious highlight of the years 1986-92 was the growth in the public profile of the office as its reports chronicled the decline and fall of the Labor government, but there were many other important changes in the work of the office.

One of the most significant developments was a great increase in the number of audits performed each year, from 318 in 1986-87 to 605 in 1989-90. The main reason for this was the passing of the *Health Services Act 1988*, under which the Auditor-General was given responsibility for the audit of 143 hospitals and nursing homes. Even though hospitals are among the largest recipients of public funds, they had previously appointed their own auditors who had reported back to hospital management, and the implementation of external audit by the Auditor-General proved a challenging exercise. Over the decades many hospitals had developed highly idiosyncratic accounting systems, with deficient balance sheets, many separate funds and methods quite at odds with normal auditing requirements. As a consequence in the first year of audit by the Auditor-General, 136 out of 143 hospitals had their financial statements qualified.³² It took several years of intensive education by Audit Office staff before public hospital accounting reached acceptable levels.

During the years 1986-92 the office worked constantly to improve the skills of its staff and enhance its audit methodologies. Two highlights in this regard were the introduction in 1990-91 of the Enhanced Financial Audit Methodology (EFAM) and the Victorian Performance Audit Methodology (VPAM). EFAM provided an improved, risk-based, audit approach and made use of audit software for the planning of audits and in undertaking data analysis to help the office improve the efficiency of its financial audits. The impetus to

develop VPAM came from the amendments to the Audit Act in June 1990 that widened the Auditor-General's mandate in undertaking performance audits. Early performance audits had focussed on questions of economy and efficiency, but the 1990 amendments led to an additional focus on effectiveness. Early in 1991 Jan Tranter and Ian Claessen carried out a review of performance audit methodology, leading to the development of VPAM, which provided a structured yet flexible conceptual and policy framework for performance auditing.³³ VPAM was widely praised as setting a world class standard in performance audit methodologies.



Ian Claessen and Jan Tranter, and the Office's VPAM manual.

In December 1990 the Auditor-General's Office moved from the government offices in Macarthur Street to the fourteenth and fifteenth floors of an office tower at 222 Exhibition Street. The composition of the staff who left Macarthur Street differed greatly from that which had moved in there twenty-two years before. The most noticeable difference was the changed role of women in the office. In 1968 the only women in the office had been in the traditional roles — comptometrists, receptionists and typists — but by 1990 thirty per cent of auditors were women, with Jan Tranter having been the first woman director promoted from within the office. Another major change was the increase in the proportion of staff with tertiary qualifications, from less than five per cent in 1968 to ninety per cent in 1991. From the mid-1970s most new staff were recruited directly from universities and colleges of advanced education. In October 1987 Richard Humphry began a policy of recruiting non-accounting professionals to supplement the Audit Office's technical knowledge base for performance auditing. By 1992 twelve per cent of the staff had non-accounting tertiary qualifications in disciplines ranging from engineering to social work.



*The home of the Auditor-General's Office, 1990-2000,
in Exhibition Street.*

In March 1992 the Parliament commissioned Fergus Ryan of Arthur Andersen to carry out the first performance audit of the Auditor-General's Office, under the provisions of the Audit Act amendments passed in 1989. Some commentators interpreted the requirement for the Audit Office to be subject to regular performance audits as a 'pay-back' for the office's criticisms of the government, but the Auditor-General never shared this view.³⁴ The office took the view that it encouraged (frequently without success) among its own auditees: that management should welcome the auditor as a source of objective analysis and advice. Fergus Ryan acknowledged the 'attitude of complete co-operation and openness which I received from the Auditor-General and his Office ... As auditees, their conduct was exemplary.'³⁵

The findings of the performance audit were generally highly favourable to the Auditor-General's Office. Fergus Ryan found that:

The Office's financial audit methodology is consistent with current audit thinking and complies with Australian auditing standards ...

The Office's performance audit methodology is advanced in development by world standards, and its application to specific engagements is generally of a high standard ...

In general, the practices of the Office in matters of management of resources, professional training and development and use of information technology are sound and are comparable to those employed by private sector audit firms of similar size. In particular, senior management of the Office has taken a pro-active role in ensuring that the proper strategic planning and development processes are in place to ensure that Office structure and support evolves consistently with needs, rather than on an ad-hoc basis ...

I have formed the opinion that the Auditor-General is meeting his objectives effectively, economically and efficiently. The direction and momentum of his office is positive and constructive.³⁶

Significantly, although Ryan's report made several useful suggestions for improvements in the work of the office, his major recommendations related to the relationships between the Auditor-General, Parliament and the Executive. He emphasised that, **'It is vital to ... understand that the Auditor-General undertakes his work on behalf of and is accountable to Parliament, and not to the Executive.'** In order to strengthen the relationship with Parliament, Ryan recommended that the Auditor-General should be appointed on the nomination of Parliament and not of the Executive; that the funding of the Office should be by a specific parliamentary appropriation rather than the normal budgetary processes; that Parliament should clarify its view of the objectives of the Office; and that Parliament should have a function in reviewing the annual performance audit plan. The report was completed in the dying days of the Labor government and attracted little attention at the time. However, over the following eight years the nature of the relationship between the Auditor-General, Parliament and the Executive became a major issue of public debate, with the eventual outcome being the adoption of Fergus Ryan's recommendations virtually in their entirety.



The hard grind of auditing, part one: Flav Belli (front row, 3rd from left) at a conference in Vanuatu, 1988.
(Flav Belli.)

Ches Baragwanath admits that he found the last years of the Labor government emotionally challenging. He found it highly stressful whenever a report was tabled in Parliament and he was glad if they were ignored by the media. When there was a storm of controversy following the tabling of the *Report on Ministerial Portfolios* in May 1990, the *Herald* reported that the Auditor-General felt the strain so much that he was ‘back on the smokes and strong black coffee and muttering about feeling 15 years older than he ought’.³⁷ However, in retrospect the years of the Labor government seemed like a Sunday School picnic in comparison with the crisis that faced the office under the Coalition government that followed.

¹ Burrows, *The Foundation*, p. 193.

² Auditor-General of Victoria, *Special Report no. 4: Court Closures in Victoria*, November 1986; *Special Report no. 5, comprising: Provision of Housing to Government Employees and Post Project Appraisal Procedures within the Public Works Department*, December 1986.

³ Auditor-General of Victoria, *Special Report no. 6: Internal Audit in the Victorian Public Sector*, December 1986.

⁴ Auditor-General of Victoria, *Special Report no. 8: Foreign Exchange*, November 1987.

⁵ For example, the *Adelaide Advertiser*, on 11 November 1987 ran the story under the headline ‘Offshore deals cost Vic. Authorities \$700m’.

⁶ *Second Report of the Auditor-General for the year 1985-86*, March 1987, p. 4. Since 1989 this annual report has been called the *Report on Ministerial Portfolios*.

⁷ *Age*, 16 April 1988.

⁸ *Age*, 31 August 1988.

⁹ John Cain, *John Cain's Years*, Melbourne, 1995, pp. 148-9.

¹⁰ Dr Coghill has kindly provided the author with his notes on the sequence of events on 22 March 1989:

The Table Office (as it was then called) advised at 1 p.m. that the Report had been received for tabling. This was out of the ordinary. I then sought advice on the legal provision and on the number of copies available of this and other reports etc from all sources to be tabled at that time. At 1.50, before the House commenced sitting I met the Clerk, the Table Office and John Olesky. John advised he had let it be known that the Report would be tabled. I determined that it would not be tabled pending legal advice plus more copies. The House sat at 2.05 (slightly late). Immediately after Question Time, Kennett and Maclellan came to my office — they had obviously been alerted!

¹¹ This comment was prompted by a question the leader of the opposition, Jeff Kennett, asked in the Legislative Assembly on 21 March: ‘I ask the Premier: did representatives of the Auditor-General meet with senior officers of the Department of Industry, Technology and Resources last week to discuss the review audit of the department’s industry assistance program, and did representatives of the department convey the government’s view that the Auditor-General’s special report should be rewritten to avoid unfavourable findings about the government’s mismanagement?’ *P.D.*, vol. 393, pp. 275-6.

¹² This paragraph is based on several sources, primarily: ‘Notes on events leading up to the tabling of special report no. 11 *Financial Assistance to Industry*’, written by John Olesky on 3 April 1989 in

Audit Office file 'Debate over VFM [Value for Money] Powers of Auditor-General, 1989; conversations with John Olesky, Ches Baragwanath, Joe Manders and Ken Coghill; *Current Account*, 29 March-7 April 1989; and Auditor-General, *Annual Report*, 1989, pp. 14-15.

¹³ *Age*, 23 March 1989.

¹⁴ Section 48 of the *Audit Act 1958* read: 'The Auditor-General may in such yearly report or in any special report which he at anytime thinks fit to make recommend any plans and suggestions that he thinks worthy of adoption for

- (i) the better collection and payment of public and other monies and control of stores
- (ii) more effectually and economically auditing and examining the public accounts or the accounts of public authorities
- (iii) any improvement in the mode of keeping such accounts that at any time is brought to his notice
- (iv) generally to report upon all matters relating to such accounts i.e. relating to the financial records of the Government and of public authorities.

¹⁵ A copy of this opinion is in the Audit Office file 'Debate over VFM Powers of Auditor-General, 1989'.

¹⁶ C. A. Baragwanath to Hartog Berkeley, 26 April 1989, copy in Audit Office file 'Debate over VFM Powers of Auditor-General, 1989'.

¹⁷ C. A. Baragwanath to John Cain, 1 May 1989, copy in Audit Office file 'Debate over VFM Powers of Auditor-General, 1989'.

¹⁸ *P.D.*, vol. 393, p. 1110, 2 May 1989.

¹⁹ For example, *Age* 11 May 1989 and *Herald* 4 May 1989.

²⁰ *P.D.*, vol. 393, p. 1115, 2 May 1989.

²¹ These views were reflected in a talk Dr Coghill gave to the staff of the Audit Office in October 1990. A copy of this talk is in VAGO archives.

²² *Report of the Auditor-General on the Treasurer's Statement for the year ended 30 June 1990*, October 1990, pp. 3-7.

²³ *Report on the Treasurer's Statement*, October 1990, pp. 39-40.

²⁴ *Report on the Treasurer's Statement*, October 1990, p. 71.

²⁵ Economic and Budget Review Committee, *Issues and Implications of the 1989-90 Consolidated Fund '\$35 Million Interest Swap' Transaction*, March 1991, pp. 30-1.

²⁶ *Report on the Treasurer's Statement*, October 1990, p. 34.

²⁷ *Current Account*, 29 October - 9 November 1990.

²⁸ Tony Parkinson, *Jeff: the Rise and Fall of a Political Phenomenon*, Melbourne, 2000, p. 322.

²⁹ For an analysis of the collapse of Tricontinental, see Trevor Sykes, *The Bold Riders: Behind Australia's Corporate Collapses*, Sydney, 1994, ch. 14.

³⁰ Auditor-General of Victoria, *Special report no. 13, State Bank: Impact on the financial position of the State*, May 1990.

³¹ An indication of the strength of the popular view that the Labor government was at fault in the collapse of the State Bank, is its unquestioned repetition ten years later by Tony Parkinson, *Jeff: the rise and fall of a political phenomenon*, pp. 111-12.

³² *Report on Ministerial Portfolios*, May 1990, pp. 158-66.

³³ *Annual Report*, 1991, p. 26.

³⁴ For example, Ewin Hannan in the *Australian* 28 October 1992, saw the Fergus Ryan report as ‘an attempt to deflect criticism’ of the government. See also *Sunday Herald-Sun* 31 May 1992, where David Wilson reported that the audit was ‘seen in political circles as a payback’.

³⁵ Fergus Ryan, *Report on Performance Audit of the Auditor-General of Victoria*, August 1992.

³⁶ Ryan, *Report on Performance Audit*, pp. 3-6.

³⁷ *Herald*, 10 May 1990.

17

Storm clouds brewing: Ches Baragwanath and the Kennett Government, 1992-96

During Question Time in the Legislative Council on 21 May 1992, Roger Hallam, the National party member for Western Province asked: ‘Is the Leader of the House ... prepared to record his unqualified support for the Auditor-General, and will he also acknowledge that it is not only the Auditor-General's right but also indeed his responsibility to comment on the effectiveness of government expenditure programs?’ Far from giving his ‘unqualified support’ to the Auditor-General, the Leader of the House, David White, the Minister for Manufacturing and Industry Development in the Labor government, queried the ‘adequacy of the professionalism within the junior and middle ranks of the Audit Office’ and claimed that his view was ‘generally shared within the accounting profession’. In response to a similar question from Roger Hallam five days later he commented that ‘it is about time there was an audit of the Auditor-General's office’ and claimed ‘the fact that the Auditor-General's office failed to uncover any aspect of a debt that resulted in a \$2.7 billion deficit to State Bank Victoria is a reflection on the Auditor-General's office’. The next day he went further to argue that ‘at no time over the past 20 years has [the Audit Office] fulfilled its responsibilities to the Parliament in respect of substantial financial transactions’.¹

Between 1989 and 1992 the relationship between the Labor government and the Auditor-General steadily worsened as a series of damaging reports highlighted the failings of a government in terminal decline. Almost inevitably many ministers blamed the Auditor-General for delivering critical reports rather than accepting that the reports reflected problems within the government. By the time the government was defeated in the October 1992 general election, most ministers had been guilty of abusing the Auditor-General and some had threatened measures to curb his powers or questioned the competence of his staff.²

During this period the Auditor-General rose ever higher in the opinion of the opposition parties. For much of its time in opposition the Liberal party was pre-occupied with leadership challenges and internal dissension, and spent little time on policy analysis, so the party welcomed the continual supply of material provided by the Auditor-General's reports and made full use of it in its attacks on the government. This situation posed an obvious danger for the Auditor-General's Office of appearing to take a partisan position and some Labor ministers accused it of doing just that. In reality, of course, an objective assessment of the activities of an incompetent government will always provide ammunition for the opposition.

The Liberal and National parties gave full recognition to the role the Auditor-General's reports played in their return to government in 1992. Shortly after the election, Jeff Kennett, the new Premier, stated that 'Mr Baragwanath and his officers deserve the full support of the Parliament and the public of Victoria for having the courage to carry out their jobs without bending to the pressures', adding that 'Parliament and the community owe the Auditor-General and his office a great deal of gratitude'.³ Comments such as these were not just made for public consumption. Shortly before the 1992 election, Jeff Kennett visited Ches Baragwanath to ask if he would be interested in heading the Department of Premier and Cabinet when the new government was formed.⁴ After considering this offer, the Auditor-General decided it would look like a reward for having been harsh on the Labor government and could thereby politicise the office. However, the fact that the offer was made illustrates the regard in which Ches Baragwanath and his office were held by Jeff Kennett and the coalition government.

Soon after coming to power the Coalition government set up the Victorian Commission of Audit to investigate and report on the condition of Victoria's public finances. As another indication of the high regard in which he held the Auditor-General, Jeff Kennett asked Ches Baragwanath to be a member of the commission. While the Auditor-General felt this would be inappropriate as it might inhibit his later comments on the actions of the government, he was happy to recommend Russell Walker, an Assistant Auditor-General, as a member. In its reports, the commission identified that a number of independent observers including the Auditor-General had sought to draw attention to Victoria's deteriorating financial position in the late 1980s and it concurred with the view of the Auditor-General that all the contentious financing arrangements entered into by the previous government represented liabilities of the State. In commenting on the role and activities of the Auditor-General, the Commission of Audit was of the view that the current system was working effectively and that the Parliament needs to have a single voice providing an opinion to it on the hundreds of public sector reporting entities. Further, it stated the independence of the Auditor-General needs to be protected by a special relationship with the Parliament, which should preclude the government from inhibiting it in any way.⁵

Ches Baragwanath anticipated that he could work well with the new government and looked forward to a fruitful professional relationship, with the Audit Office recommending

improvements in public sector resource management and the government acting on the suggestions. To a large extent these hopes were fulfilled in the first term of the Coalition government. The Audit Office developed good working relations with the Treasurer, Alan Stockdale, the Minister for Finance, Ian Smith, and their departments. Ian Smith confirmed the government's commitment to examining and responding to audit findings, stating that 'The Government values the contributions made by the Auditor-General in identifying opportunities for improved resource management and increased efficiency and effectiveness of operations.'⁶

The central focus of the Kennett government in its first term was on restoring the state's financial position by reducing debt, eliminating the budget deficit and reforming financial management. The government's success in this field received full recognition from the Audit Office. In the report on the annual finance statement for the first full year of the Coalition government, the Auditor-General wrote:

I can now report that prompt action has been taken by the Government during 1992-93 to resolve many matters which had remained outstanding for a number of years. The Government has recognised as liabilities, for the first time, transport sales and lease-back transactions, deferred expenditure arrangements, the Portland Smelter Unit Trust delayed compensation payments and financing arrangements associated with the World Congress Centre and has commenced action to eliminate prior year expenditure deferrals.⁷

The report praised many other initiatives taken in the previous twelve months, including the development of an integrated management cycle with a medium to long-term planning focus and accountability based on outcomes, financial management legislation improving financial reporting and accountability requirements, the reform of public sector superannuation to reduce the level of unfunded liabilities, improved differentiation between operating and capital transactions within the budget sector and a promise to introduce accrual accounting in the budget sector.

The following year the Auditor-General reported 'the financial reform momentum has been maintained', and commented that 'The results for the year indicate that the Government's reforms are having a favourable financial impact and that the Government is well placed to produce positive financial results in the future.'⁸ The Audit Office maintained this favourable assessment of the Kennett government's financial management for the life of the government and the relationship between the Treasury and the office remained good.

The good relations between the Treasury and the Audit Office extended to most ministers and their departments. This was aided by three significant factors. Firstly, for the first two or three years of the new government shortcomings revealed in the Auditor-General's reports could be blamed on the previous government. For example, following a report in May 1993 that pointed to serious deficiencies in the accountability and monitoring of visiting medical officers in public hospitals, the Health Minister, Marie Tehan, said, 'The report points to problems built up over a decade, during which the former Labor government failed to

provide leadership in the management of Victoria's public hospital system.⁹ Secondly, the government was able to use some of the Auditor-General's reports in these years to support its policies. The clearest example of this was the report on the open cut coal mining operations of the SEC in the Latrobe Valley.¹⁰ This report revealed the long-term impact of the SEC's industrial relations policy of giving the unions everything they asked for, showing that annual savings of at least \$50 million could be achieved through the removal of restrictive work practices and the ending of the gross overmanning that characterised the SEC's operations. These findings provided welcome support for a government committed to the restructure and ultimate privatisation of the electricity industry. Finally, many of the office's special reports in this period were on topics that proved to be politically non-controversial, such as the Zoological Board of Victoria, information technology in the public sector, international student programs and salinity.



Graham Hamilton and Terry Lant (standing) with members of the Economic and Budget Review Committee (as the Public Accounts and Estimates Committee was called between 1982 and 1992); (sitting, from front left) Peter Batchelor MLA, Theo Theophanous MLC, Ian Baker MLA, Robert Clarke MLA and Mark Roberts (Executive Officer).

An important reason for the smooth interaction between the government and the Audit Office in the first term of the Kennett government was the work of the Public Accounts and Estimates Committee, chaired by Graeme Weideman, MLA for Frankston, a senior Liberal backbencher. Weideman recalls that the committee had good members from both sides of

politics and excellent research support from Craig Burke, who was on secondment from the Audit Office, and Michele Cornwell, who has been executive officer since 1995. When Weideman took over as chairman, he met Ches Baragwanath to discuss the committee's activities and they agreed that a central function of the Public Accounts and Estimates Committee was to work closely with the Auditor-General, and represent his office in the Parliament. Over the next four years the committee put this philosophy into action, carrying out in-depth investigations on issues raised in the Auditor-General's reports and working with the government and bureaucracy to resolve problems identified by the Auditor-General. The output of the committee was formidable, with thirty-seven reports being presented to Parliament between 1992 and 1996, and this complemented the work of the Audit Office to produce a system of public accountability that Graeme Weideman saw as being 'the envy of the world' and 'setting the standard for others to follow'. As the 1993-94 Annual Report of the Audit Office noted, 'the Office's relationship with the Committee is at its highest level'.



Public Accounts and Estimates Committee 1994, L-R: Tony Hyams MLA, Ian Baker MLA, Graeme Weideman MLA, Craig Burke (Director of Research), Ross Smith MLC.

A good example of the way in which the Public Accounts and Estimates Committee was able to support the Auditor-General in this period came in a dispute over a proposal to place the Auditor-General on a contract with the Premier, as was done with many senior public servants. Early in the government's first term, Ken Baxter, the head of the Department of the Premier and Cabinet, wrote to the Auditor-General saying the Premier wanted to talk about

the contractual terms under which he was to be employed. Ches Baragwanath rang Baxter and said, 'You've got to be joking — the Auditor-General can't be under contract to the Premier', to which Baxter replied 'What makes you think you're different from any other public servant?' Following this exchange, Ches Baragwanath raised the issue with the Public Accounts and Estimates Committee. The committee, in spite of its majority of coalition members, strongly supported the Auditor-General, arguing that it would clearly be a breach of the principle of independent review of the executive for the Auditor-General to have a contract with the Premier. The committee agreed with the Auditor-General that he should not take part in any discussions on such a contract, and this support led the government to quietly drop the issue.¹¹

Graeme Weideman retired from politics at the 1996 State election. Looking back, Ches Baragwanath regards this as a tragedy as without his leadership the Public Accounts and Estimates Committee lost much of its independence and crusading zeal and was not able to stand up to the government when it launched its attack on the powers and independence of the Auditor-General.

In many ways the years 1992-96 marked a high point in the productive work of the Auditor-General's office. Not only did the office have effective working relationships with the government and the Public Accounts and Estimates Committee, but the staff was at its most stable for many years, with skilled and experienced staff at all levels, and audit methodologies for both financial and performance audits had been refined to a high level.

In late 1994 the office introduced a 'state of the art' computer-based financial audit system. The system fully integrated audit planning, testing and workpaper modules leading to a largely paperless approach to the conduct of financial audits and resulting in significant productivity gains. David Sturgess played a lead role in the implementation of this system which placed the Victorian Auditor-General's Office in a position of world leadership, with its methodologies recognised by independent experts as being at the leading edge of auditing practice.

The Auditor-General's Office inevitably felt the impact of the large cuts in expenditure imposed by the Kennett government. The office's graduate recruitment program was abandoned for several years and many vacancies went unfilled, with the result that total staff numbers fell from 160 in June 1993 to 141 in June 1995. Although this obviously led to difficulties in carrying out the office's statutory responsibilities, it also meant that fewer resources had to be devoted to training new staff. Further, the recession meant that the usual high level of departures to the private sector slowed sharply, enabling the office to retain more experienced staff for longer than normal.



The hard grind of auditing, part two: Kim Nolan advises Leon Fewster on a tricky audit problem.

The staff of the office, as members of the Victorian public service, were subjected to the dramatic changes in public service conditions introduced by the Kennett government. The traditional security of the public service was replaced by a new regime of employment contracts, dismissal of executives on four weeks' notice, performance linked pay, reduced superannuation benefits, and the loss of work conditions such as holiday leave loading. The office's appropriation was cut substantially in 1993-94, but it was able to absorb most of the impact through a freeze on recruiting combined with a relatively small number of voluntary departures, and the previous level of funding was restored in 1995-96.

In mid-1993 Ches Baragwanath asked Russell Walker to review the structure of the office and this led to a decision to divide the office between performance audit divisions and financial audit divisions. Previously each division had carried out both performance and financial audits within their 'portfolio' of responsibilities. While this was popular with the staff, it tended to make auditors 'jacks of all trades and masters of none'. Under the new structure the office had two performance audit business groups, headed by Graham Hamilton and Joe Manders, and two financial audit business groups, headed by Russell Walker and John Kehoe.

One of the major reforms of the Coalition government was a restructure of local government that reduced the number of municipalities from 210 to 78. Previously the Auditor-General had no role in auditing municipalities, but with the restructuring the Minister for Local Government asked the office to conduct due diligence audit reviews of the amalgamated municipal councils. These reviews revealed major problems that had been

endemic in local government for many years but had not been brought out under the previous audit regime — it was only the overview provided by the Audit Office that showed the problems existed across the local government sector. The issues raised by the due diligence reviews included poor asset management practices, lack of prudent financial management and long-term budgeting, non-viable commercial developments, conflicts of interest and many other things. The Minister for Local Government, Roger Hallam, commented that the office's report on one council 'set new standards for municipal auditing and covered many matters that may not have come to light if not for amalgamation'. Mr Hallam continued that he was 'particularly concerned at the prospect that current audit procedures may be inadequate for the requirements of modern local government'.¹² The consequence was that from 1 July 1995 legislative responsibility for the annual audit of municipal councils was assigned to the Auditor-General. This added seventy-eight councils, ten council-run library services and four companies associated with councils to the office's auditing responsibilities.



The hard grind of auditing, part three: Sid Muscat keeping the public sector honest.

In April 1995 the Parliament, through the Public Accounts and Estimates Committee, appointed Alan Talbot of Price Waterhouse to carry out the second performance audit of the Auditor-General's office. His report was presented to Parliament in October 1995 and, as with Fergus Ryan's 1992 report, the office had reason to be pleased with the audit findings. The key finding was that 'the Auditor-General has achieved his objectives effectively and done so economically and efficiently'. Talbot found that the quality of the office's financial audits was comparable to those of the 'big six' accounting firms and that its performance audits were of high quality, although restricted by the limited resources available. In a

significant comment, Talbot referred to the Auditor-General's enviable position in having a 'captive client base'. This view is understandable from the point of view of a private sector auditor who had to compete for clients, but, as Ches Baragwanath pointed out, there are very sound reasons for adopting a different approach in the public sector:

While there is a growing trend to view client services as the objective of all audit activities, this trend runs the risk of failing to recognise the unique responsibilities to the wider community that attach to the audit function in the public sector. I regard the position of having a captive client base as a decided strength especially on those occasions where I may agree to disagree with client agency management. To be able to report publicly in such circumstances, without being unduly concerned about any possible adverse impact on relationships with client agency management, reinforces the independence of an Auditor-General and provides an important safeguard to the primary audit clientele, namely the Parliament and taxpayers of Victoria.¹³

It was around the middle of the Coalition government's first term that signs began to emerge of a deterioration in its relationship with the Auditor-General. In October 1994, the *Age* ran a story on the Auditor-General's report on the finance statement with the headline, 'Auditor's praise tempered by Grand Prix, Tabcorp doubts'.¹⁴ This was typical of most audit findings on the operations of the Coalition government in the middle years of its term — the Auditor-General gave the government's economic and financial management an 'A+' report, while in other areas Ches Baragwanath summarises the government as being about a 'B+'. However, the areas in which the Auditor-General was most critical of the government were areas in which the government was particularly sensitive. In the mid-1990s various reports of the Auditor-General criticised the government's actions on issues relating to the Grand Prix, political advertising, Crown Casino and the privatisation program.

Although these reports were not on central political or economic issues, the government reacted to them with surprising heat. Mr Kennett and his senior ministers not only rejected and criticised the findings of the audit reports, but also began to attack the Auditor-General and his office. For example, following the tabling of a performance audit report on *Marketing Government Services*, which criticised the government's use of public funds for political advertising, Jeff Kennett chose not to address the issues raised in the report, but instead attacked the expertise of the Auditor-General's office: 'One of the things we are noticing now that the Auditor-General is moving to performance audits ... is the problem and difficulty that a lot of these people have never been involved in the particular field they are auditing.'¹⁵ This particular theme appeared frequently in the government's attacks on the Auditor-General's office over the following years, in spite of the lack of understanding of the nature of performance auditing it showed. The reaction of the government to the Auditor-General's reports prompted the *Australian* to pose the question: 'The puzzling aspect of Mr Kennett's behaviour is that he appears to have been governing well — why does he wish to encourage the view that he has something to hide?'¹⁶



Ches Baragwanath and his staff, 1990.

Of the Auditor-General's reports in the mid-1990s, two that deserve particular attention are those on the sale of United Energy and the operations of the Children's Court, both of which became matters of intense political debate in June 1996. In the *Report on Ministerial Portfolios* presented to Parliament in May 1996, the Auditor-General drew attention to the events surrounding the final audit of the electricity distribution business United Energy before its privatisation. The Auditor-General issued a qualified audit opinion on the basis that,

The financial statements of United Energy Ltd do not reflect the reality of its financial activities and position due to the inappropriate inclusion by the company, after its sale, of provisions and related expenditure totalling \$70.9 million. Had this amount not been provided for, the company would have reported an operating profit after tax of \$44.9 million.¹⁷

Thus, in the view of the Audit Office, United Energy overstated its liabilities to show a loss of \$26 million, whereas it really made a profit of \$45 million. Press speculation on the motives for wishing to understate profits included the government's desire to make the price obtained for the business appear to be even better than it was, and the interest of the management in putting a gloss on the future performance of the business.¹⁸ The audit of United Energy's financial statements for the period ended 30 June 1995 was in progress when the business was sold in August. The company then requested the resignation of the Auditor-General as the Corporations Law auditor of United Energy. The Auditor-General advised the company that the audit to 30 June had not been finalised and he refused to

resign. United Energy then proceeded with the removal of the Auditor-General as auditor under the provisions of the Corporations Law and appointed a major accounting firm as its auditor (although the Auditor-General finalised the audit under the authority of the Audit Act). The accounting firm, which had acted for the new owners of the business during the sale process, gave an unqualified audit report for the period to 30 June 1995. United Energy's accounts showed that the private firm, in addition to its audit fees, was paid \$848,000 for 'other services'.¹⁹ Although the government and United Energy portrayed these events as merely a dispute over accounting technicalities, from the point of view of the Auditor-General and many independent observers, the incident raised serious questions of conflict of interest and audit independence.²⁰ With the benefit of hindsight, it is intriguing that the government decided soon after this incident that the private sector should be given a larger role in public sector auditing.

The debate over the United Energy audit in May and early June 1996 was overshadowed by even greater controversy over the Auditor-General's report on Child Protection Services. The origins of the child protection audit dated back to August 1994 when the Public Accounts and Estimates Committee agreed to fund a performance audit because child protection was clearly a matter of intense public interest. Following a preliminary survey, the audit team realised that child protection services extended far beyond the role of the Department of Human Services. As a result the audit scope was expanded to include the Children's Court and the role of the private sector in providing accommodation and support services for the department. The aim of the audit was to examine the effectiveness of the provision of child protection services, and the level of efficiency and economy achieved in the management and delivery of these services.

The range and significance of the audit findings led to the decision to table separate reports, on the Department of Human Services and the Children's Court. The report on the department was duly tabled and, while it aroused great public concern at the horrific circumstances of many children, the response of the department and the Minister for Youth and Community Services, Denis Napthine, was positive. The minister commented, 'The recommendations of the Auditor-General will assist us in making further improvements to child protection services.' The report was also welcomed by the Chief Justice of the Family Court, John Fogarty, who wrote a congratulatory letter to Trevor Wood, the leader of the audit team:

Just a short note to congratulate you and your colleagues on the excellent report on child protection in Victoria.

I know from past experience what a difficult and arduous task it must have been. However, the satisfaction to you is that the report was most thorough and complete and sets to rest any doubts which could have existed as to the situation.

It now represents the definitive work in this area.

Hopefully, it will also be taken up positively by Government and represent a blueprint for essential reforms in the area.

However, the report on the Children's Court had a very different fate. The office worked closely with the Department of Justice and the senior magistrate of the Children's Court in establishing the ambit of coverage, and incorporated formal responses from the department (most of which were supportive of the issues raised) in its final report. Even though the Department of Justice had been aware of the nature of the audit from its inception, on the evening before it was due to be tabled, the department produced a legal opinion arguing that the Auditor-General had no authority to report on the operations of a court. As Ches Baragwanath recorded, 'in view of the explicit nature of this legal advice, I reluctantly decided that it would be inappropriate to transmit the report to Parliament', although he argued that the report covered only the administrative functions of the court and made no comments on its judicial role.²¹

The government defended the suppression of the report on the Children's Court on the grounds that the report violated the independence of the judiciary and the doctrine of the separation of powers. However, the strength of this argument was lessened by the fact that a report on the Magistrate's Court included in the May 1995 *Report on Ministerial Portfolios* had been tabled without incident. Was it just coincidence that the report on the Magistrate's Court was favourable, whereas the report on the Children's Court was highly critical? Scepticism as to the government's motive was increased by the clumsy way in which the report was suppressed shortly before its tabling in Parliament, when the Department of Justice had been closely involved in the whole audit process for many months. Thus, even though there was some strength in the case that the Auditor-General had no mandate to audit the Children's Court, to the opposition and the press it was a clear case of 'nobbling' the Auditor-General.²² And as subsequent events were to show, the general public had great faith in the objectivity and independence of the Auditor-General, together with a high degree of cynicism about the motives of politicians.

¹ *P.D.*, vol. 407, pp. 898, 899, 941, 1009; 21, 26 and 27 May 1992.

² See, for example, *Australian*, 1 June, 11 October 1990; *Age*, 10 and 14 October 1990, 18 and 19 April, 24 October 1991; *Geelong Advertiser*, 23 November 1990.

³ *P.D.*, vol. 409, p. 54, 28 October 1992.

⁴ This approach is not documented in Tony Parkinson's biography of Mr Kennett. Parkinson suggests that Kennett's first choice was actually Ches Baragwanath's predecessor as Auditor-General, Dick Humphry. If Humphry had accepted the position, he would surely have prevented the attack on the Auditor-General by the government in 1996-7. See Parkinson, *Jeff*, p. 146.


⁵ *Report of the Victorian Commission of Audit*, vol. 1, May 1993, especially pp. 1, 21, 208-9.

⁶ Quoted in Auditor-General's office, *Annual Report*, 1993, p. 35.

⁷ *Report of the Auditor-General on the Finance Statement*, October 1993, p. 1.

- ⁸ *Report of the Auditor-General on the Finance Statement*, October 1994, pp. 5, 7.
- ⁹ Special Report no. 21, *Visiting Medical Officer Arrangements*, April 1993; Marie Tehan quoted in *New Accountant*, 13 May 1993.
- ¹⁰ Special Report no. 24, *Open Cut Production in the Latrobe Valley*, May 1993.
- ¹¹ This paragraph is based on information from Ches Baragwanath and Graeme Weideman.
- ¹² Quoted in Victorian Auditor-General's Office Annual Report, 1994-95, p. 34.
- ¹³ Ches Baragwanath to Alan Talbot, 25 September 1995, in *Auditing in the Public Interest: a Performance Audit of the Victorian Auditor-General*, September 1995.
- ¹⁴ *Age*, 21 October 1994.
- ¹⁵ Quoted in the *Australian*, 16 May 1996.
- ¹⁶ *Australian*, 14 September 1995.
- ¹⁷ *Report on Ministerial Portfolios*, May 1996, p. 7.
- ¹⁸ *Sunday Age*, 19 May 1996.
- ¹⁹ United Energy Limited, *Financial Statement and Reports for the period from 11 May 1994 to 30 June 1995*, p. 20.
- ²⁰ Peter Lowe, the financial director of United Energy, claimed 'its just a way of accounting. We would argue that we are taking a more commercial view. He [the Auditor-General] is falling back on accounting principles and technicalities.' *Sunday Age*, 19 May 1996.
- ²¹ Victorian Auditor-General's Office, *Annual Report*, 1995-96, p. 3.
- ²² See, for example, *Age*, 24 June 1996; *Australian*, 22 June 1996; *Herald-Sun*, 22 June 1996.
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18



The greatest challenge to the independence of the Auditor-General, 1996-98

Part One: The Audit Act Review

On Friday 15 November 1996 the agenda for the annual staff seminar of the Audit Office was changed at the last minute when the Premier, Jeff Kennett, requested a meeting with the Auditor-General. Naturally, this prompted speculation in the office, with the strongest rumour being that the Premier might be offering Ches Baragwanath an attractive job such as Agent-General in London. The reality was very different. After some preliminary banter, Mr Kennett told the Auditor-General that he was going to begin an immediate review of the Audit Act under national competition policy. After quickly reading the proposed terms of reference, Ches Baragwanath looked up and said, ‘You’ve got to be kidding!’ But the Premier was deadly serious.

This meeting marked the beginning of the most tumultuous period in the history of the Auditor-General's office. Jeff Kennett relentlessly drove the process from review to legislation, forcing through Parliament a model of public sector auditing unique in the world, in which all public sector audits had to be contracted out, a new, government-controlled business enterprise called Audit Victoria was set up to compete for audits, and the Auditor-General, with a greatly reduced staff, became a contracts administrator, stripped of many of his former powers. The Premier was confronted by an equally determined Auditor-General. What transpired was a clash between two giant personalities that became the focus of intense public debate. From the announcement of the review in November 1996 to the passing of the legislation in December 1997 there was an extraordinary outpouring of public support for the Auditor-General and his office. Public meetings, petitions, rallies and vigils took place throughout the State and opinion

polls showed overwhelming opposition to the government's proposals, even among supporters of the coalition. Soon after the passing of the legislation, the government suffered a decisive by-election loss following a campaign fought primarily on the issue of the powers and independence of the Auditor-General. Even though the battle appeared to be lost with the passing of the legislation and the dismemberment of the Auditor-General's office, the issue remained deeply etched in the public's consciousness and played a major part in the defeat of the Kennett government in the general election of September 1999. During this election one of the Labor party's main campaign promises was to restore and extend the powers and independence of the Auditor-General and, on taking office, this formed the first legislative action of the new government. Not only were the powers of the Auditor-General fully restored, but his position was given protection in the State Constitution.

The focus of the public debate on the role, powers and independence of the Auditor-General from November 1996 to December 1997 subtly shifted with each new phase of the review process and many different arguments were deployed by both sides. The central feature was the determination of the Premier to force through changes to the Audit Act regardless of any arguments or opposition. The decision to review the Audit Act under national competition policy was primarily Jeff Kennett's, and, similarly, he drove the whole process, with little support even from within the ranks of the coalition. Roger Hallam, who was the only government minister to give philosophically consistent support to the reform process, recalls that Jeff Kennett was 'the strongest leader' and that he was genuinely committed to the concept of contestability and competition policy. Once the review process started, Mr Hallam believes that the Premier felt it was a challenge to his leadership if the government members did not accept the review and stand behind its conclusions. Kennett saw the issue as a show of strength and he was not afraid to take a position of leadership. In many areas such as local government restructuring, the Victorian government had given a lead to all of Australia in bringing in reforms, and Jeff Kennett thought they should do this in the audit area as well. To Roger Hallam, Jeff Kennett's position was based firmly on principle — competition policy was central and the Premier was committed to it.

The rationale advanced by the government for the review of the Audit Act was that it was required under national competition policy. This policy, which was based on the Hilmer report, was formally approved by the Commonwealth and states in April 1995.¹ Among other things, in exchange for substantial compensation payments from the Commonwealth, the states undertook to review all legislation that in any way restricted competition. The Victorian government's enthusiasm for the principle of competition ensured that it began this process promptly. By June 1996 the government had prepared a timetable for reviewing legislation, drawing up a list of 430 acts and associated regulations for review and ranking them as high, medium or low priority according to the 'potential for economy wide gains through reform'.² The Audit Act was ranked as **low priority**, with the review being set down for **June 1998**, near the end of the process.

This raises the obvious question, which is central to an analysis of the government's motives for its moves against the Auditor-General: why was the low priority review of the

Audit Act advanced from June 1998 to November 1996? There is no doubt that the decision was made by the Premier.³ The announcement of the review was as much a surprise to his Cabinet colleagues and senior Liberals as it was to the Auditor-General — and, as with most government moves in the Kennett era, the Liberal backbenchers were the last people in the State to know what was going on.⁴ Ches Baragwanath recalls that Jeff Kennett told him, ‘It is one of the few relevant pieces of legislation in the Premier and Cabinet Department and the Premier should set an example for the other ministers.’ In fact, the Audit Act was one of seven acts administered by the Department of Premier and Cabinet listed for review; of these three were regarded as medium priority and four as low priority, so it is hard to see why the Premier would choose to advance the low priority Audit Act rather than one of the medium priority acts if he really wanted to set an example. Further, it would appear to have made more sense for Mr Kennett to have insisted on immediate progress with some of the many high priority reviews to demonstrate the benefits that could flow from increased competition, rather than advance a low priority review that would inevitably cause political controversy and divert attention from competition policy.

An analysis of the results of the competition policy reviews carried out by the Victorian government gives an interesting perspective on the priority the government gave to the review of the Audit Act.⁵ Many reviews resulted in the determination that ‘retention of restrictions [is] justified as being in the public benefit’. Reviews in this category included a wide range of legislation from the Accident Compensation Act to the Vocational Education and Training Act. Several acts were excluded from review as there was ‘no scope for change due to overriding social policy objectives’. Other acts, including the Australian Grand Prix Act and the Parliamentary Salaries and Superannuation Act were assessed as ‘not restricting competition’. Another group of acts, including the legislation establishing a monopoly for Crown Casino, gained the brief report, ‘review not required’. The justification for not reviewing the Casino (Management Agreement) Act and the Casino Control Act was ‘the lack of scope for amendment without varying contractual arrangements with the existing casino operator’. The strength of this argument will be in inverse proportion to the reader’s cynicism. It is difficult to reconcile the claim that competition policy drove the review of the Audit Act, with the readiness of the government to limit reviews in many other areas.

The decision to review the Audit Act under national competition policy received little support from the National Competition Council. The executive director of the council said that, ‘We haven’t gone to jurisdictions and said that you must look at your Audit Act — it’s not one that we’ve targeted as a high-priority area.’⁶ He confirmed that Victoria would not be penalised if it did not review its Audit Act. Significantly only one other State government chose to review its Audit Act and no State was penalised by the National Competition Council for failure to carry out a review. In Tasmania a review panel (including the Auditor-General) recommended that ‘the Auditor-General should retain the power for auditing the accounts of all Government departments as well as majority owned public sector entities’ and that ‘restrictions to be retained in the Financial Management and Audit Act have been appropriately justified in the public benefit as required by the Legislation Review Program’.⁷

Few observers gave credence to the government's claim that the review of the Audit Act was prompted by a desire to fulfil its obligations under national competition policy. The most straightforward explanations simply saw the government as trying to 'noble the Auditor-General'. Naturally, the Labor party backed this view, but it was also endorsed by newspapers that were normally strongly supportive of the government. The *Herald-Sun* argued that 'the government is using competition policy as a Trojan horse to get inside Mr Baragwanath's office and strip him of the ability to probe any government operation'.⁸ The *Australian*, another Murdoch newspaper, was even blunter, seeing the review as 'the most brazen attempt yet by Jeff Kennett to undermine the effectiveness of one of the few remaining independent critics of the Coalition'.⁹ Other interpretations of the reasons for the review revolved around the personality of Jeff Kennett. For the leader of a coalition of conservative political parties, Jeff Kennett was an extraordinarily radical politician. The conservative philosophy has been summarised as being 'not to prevent all change — for that is impossible — but to postpone the maximum of change by supplying the minimum of change.'¹⁰ By contrast, Mr Kennett's philosophy was that change is a good in itself. In May 1997, for example, he said, 'What we are doing is enriching this society, **but every section of it must be subjected to change.**'¹¹ For the Auditor-General the implication of this philosophy was clearly that it was useless to argue for the status quo, as the government was committed to change. The philosophical commitment to change went hand in hand with the Premier's larrikin streak, expressed by his biographer as a liking for 'throwing a dead cat on the table', and an aversion to criticism unusual in a successful politician.¹² Any institution in the State that cast doubts on the Kennett vision of Victoria was liable to be neutralised or dismantled, as happened to the Director of Public Prosecutions, the Law Reform Commission, and the Equal Opportunity Commission. Given that the Auditor-General had released some reports that were critical of the government, and particularly of the secrecy surrounding its pet projects such as the Casino and the Grand Prix and the use of public funds for political advertising, it is not surprising that the government sought some means of retaliation. Respected business commentator Alan Kohler, suggested in November 1996 that,

What really cooked Ches Baragwanath's goose was his present performance audit work schedule ... It goes like this: case-mix funding of public hospitals; Schools of the Future; management of the gaming industry — role of the Victorian Casino and Gaming Authority; child care and kindergartens; public transport reform; police customer service strategy; privatisation of Government Business Enterprises; outsourcing in the public sector. It was, with the benefit of hindsight, a suicide note.¹³

Kohler regarded the review of the Audit Act as essentially an attempt to take the cutting edge off the Auditor-General's performance audits. While strongly supporting the proposal to contract out all financial audits, he argued that no private accounting firms would be able to carry out performance audits at the same level as the Auditor-General's Office — 'it is impossible to imagine a private firm having the expertise or the courage to take on Jeff Kennett'.



Tandberg's view of the motive behind the Audit Act review, 27 February 1997.
(Reproduced courtesy Ron Tandberg and the Age.)

The belief that the government had a deeper agenda than merely following its obligations under national competition policy was supported by the terms of reference it set for the review, which went well beyond the required five standard elements of a competition policy review. The added terms of reference were:

The review should specifically address the appropriateness of whether:

- removing the current restrictions whereby the Auditor-General may authorise other persons to undertake financial audits should be extended so that some, or all financial audits and performance audits should be conducted by private auditing firms, or alternatively so that authorities may select their own auditor, with the ability to choose between the Auditor-General or private auditors; and
- dependent upon findings in relation to this, whether the Auditor-General should be responsible as the contracting agent, or if agencies choose their own auditor, standards setter for financial and performance audits.

These reform options all focussed on removing powers and functions from the Auditor-General and giving them to private firms. As the annual report of the Auditor-General's office said, these terms of reference 'appeared to pre-empt the outcome of the review', while the Labor party's Treasury spokesman, Steve Bracks, put it more eloquently: 'the terms of reference were like a loaded gun pointed at the Auditor-General's head'.¹⁴ Some briefing notes prepared for a meeting of the Auditor-General with the Speaker on 28 November 1996 emphasised that 'reform options within the terms of reference have been carefully worded to commit the review team to make recommendations in line with stated alternatives'. Although government ministers argued that the 'Government has not directed and will not direct any outcomes of the review', the terms of reference meant that no further direction was necessary.

It is a truism of politics that a government should never set up a review without knowing the outcome; as the Kennett government set the terms of reference and chose the review panel for the review of the Audit Act, it is hard to believe that it did not anticipate the outcome.

It was not in Ches Baragwanath's character to accept meekly the threat to the position of the Auditor-General posed by the government's review. On 21 November 1996 he wrote to every member of Parliament presenting his case. This statement presented the basic arguments used by the Auditor-General and his supporters over the ensuing thirteen months of the public debate on the review process:

While I acknowledge the Government's right to apply the National Competition Policy to its own operations, this review involves a fundamental challenge to a key element of the Westminster system of parliamentary democracy in that my freedom to independently audit government activities on behalf of the Parliament and the taxpayer could be seriously compromised.

I am astonished to see that the role of the Auditor-General is regarded as a government activity and, therefore, subject to this review. In fact, my role and that of my Office is clearly separate from government. The Auditor-General forms part of the Parliament's regulatory and accountability framework and is the principal source of independent information for both the Parliament and Victorian taxpayers on the performance and operations of the Government itself.

I emphasise that I am not opposed to independent reviews of my Office by the Parliament. Two major reviews since 1992, commissioned by the Parliament, have concluded that I am discharging my financial and performance audit responsibilities, using both in-house and private sector resources, economically, efficiently and effectively.

It is inappropriate for the Government, as the subject of my audit, to commission a review which directly questions whether the Auditor-General should undertake audits on behalf of the Parliament and taxpayers and seeks to influence the manner in which audit services are to be provided. Such action undermines the powers of the Parliament and is prejudicial to audit independence.

In addition, the terms of reference are worded in such a way that appears to me to pre-empt the outcome of the review. For instance, one of the terms of reference envisages Government agencies having the right to choose their own auditor. I find this objectionable as it is a well-established principle that those subject to an audit do not appoint their own auditor.

Numerous parliamentary inquiries within Victoria and across Australia have concluded that the interests of Parliament and taxpayers are best served by an Auditor-General as a single independent voice with audit responsibility extending across the whole spectrum of government activity, free from government influence or control, and with a mandate to audit and investigate wherever and in whatever way deemed necessary.

In my 8 years of reporting in the public interest without fear or favour, I view this government action as representing the greatest threat to the independence and even the very existence of my role, and to the Parliament's and the community's right to know.

The announcement of the review of the Audit Act sparked strong expressions of support for the Auditor-General from many of the key institutions of the State — the media, peak bodies of the accounting and legal professions, major community groups and members of Parliament from both sides of politics. Almost immediately after the announcement of the review, Jeff Kennett and his chief media adviser went overseas for a week. In his absence many members of the Liberal party spoke out against the review. Foremost among these was the Speaker of the Legislative Assembly, Jim Plowman, who said, ‘I, like all members, take this issue as one of great importance, because the Parliament must always be satisfied that the audit process is independent and can give unfettered and clear and concise and independent advice to the Parliament.’¹⁵ These comments were endorsed by the President of the Legislative Council, Bruce Chamberlain.¹⁶ The Speaker and the President were initially strongly supported by the Public Accounts and Estimates Committee. Headed by Bill Forwood following the retirement of Graeme Weideman, the committee issued a strongly worded statement arguing that ‘This committee believes that there should be no external or organisational impairment to restrict the Auditor-General in discharging his or her audit functions’ and questioning whether the review was beyond the power of competition policy laws.¹⁷ Both the *Age* and the *Herald-Sun* quoted a Liberal MP as saying of the review of the Audit Act: ‘generally speaking the overwhelming number of MPs are absolutely outraged’.¹⁸

Almost the only support for the Premier in the week after the announcement of the review came from one of the bitter relics of the Labor government, Steve Crabb. Mr Crabb, still smarting from his encounters with the Auditor-General while in office, wrote a vitriolic article suggesting that ‘In all my years in parliament, I can’t remember the auditors ever uncovering a rort’, and arguing that ‘I can’t think of one department more in need of a performance audit than the Auditor-General’s’.¹⁹ Mr Crabb had apparently forgotten that he had been a senior member of the government that had introduced a legislative requirement for the office to undergo a performance audit every three years and that the first two such audits had reported that the Auditor-General was carrying out his functions effectively, efficiently and economically.

Jeff Kennett returned from overseas on 28 November 1996 and immediately the voices of dissent in the government ranks fell silent. The Premier said that during his absence his followers had been caught up in a ‘frenzy’ created by the media and the opposition and accused them of making comments in ‘absolute ignorance’. The chairman of the Public Accounts and Estimates Committee was singled out for public ridicule, with the Premier raging that ‘Bill Forwood’s comment [on the legality of the review] is absolutely wrong and totally wrong based on the role of executives in being able to review any Acts of Parliament.’²⁰ The Premier’s outburst had its desired result. By 2 December, Mr Forwood was claiming that he had been misrepresented and that the public should not be concerned by the review, and other formerly vocal backbenchers lapsed into silence.²¹ The following week the Public Accounts and Estimates Committee went back on its earlier commitment to seek advice on the legality of the review, voting on party lines to endorse the government’s ‘independent and transparent’ review.²²

The review panel consisted of Rodney Maddock, Professor of Economics at Latrobe University, Ken Spencer, chairman of the Australian Accounting Standards Board, and John Dahlsen, a consultant with a major law firm. As the review process ran its course, Professor Maddock appeared to be the driving force of the review panel, making all public comments and being the only member of the panel to publicly defend its findings.

The review panel had a tight timetable, receiving submissions in January 1997, releasing a discussion paper in February and handing its final report to the government in April. The panel received fifty-one submissions from a wide range of groups and individuals, including the professional accounting bodies, several academic accountants, government departments and other public bodies, the Speaker of the Legislative Assembly, the President of the Legislative Council, the Australasian Council of Auditors-General, and several prominent community groups. Of these submissions, forty were essentially supportive of the position of the Auditor-General, while eleven either advocated full contestability of public sector audits or criticised various aspects of the work of the office.

The review was characterised by speed and secrecy, in spite of the government's promise that the process would be open and transparent. The panel did not hold public hearings and did not allow public access to the submissions it received.²³ Bruce Chamberlain, the President of the Legislative Council, made a submission arguing that 'bodies established pursuant to Acts of the Parliament of Victoria should continue to be subject to audit by the Auditor-General or the agents of the Auditor-General, [and] that the present arrangements are not anti-competitive'. He recalls that he was concerned that his submission should be on the public record, but he was not able to do this until he was being questioned on the budget for parliamentary services by the Public Accounts and Estimates Committee on 19 May 1997. Steve Bracks, then a member of the committee, was discussing proposals to contract out some of the functions servicing the Parliament, and, after fairly clear prompting, asked Mr Chamberlain his views on the Premier's plan to take away operational control from the Auditor-General. This enabled Bruce Chamberlain to point out that he had made a submission to the review panel arguing for the maintenance of the status quo.²⁴ This is indicative of the roundabout ways in which the submissions to the review panel became public.

Immediately following the announcement of the review, the Auditor-General's Office set up a research team to prepare a detailed submission. The team, with the aid of David Cousins of KPMG, worked through the Christmas-New Year holiday period to write a lengthy and detailed argument for the maintenance of the existing system of public sector auditing.²⁵ The submission contended that 'There is no case for any action which focuses on the convenience of the Executive Government and public sector managers and dilutes the value of the distinctive strengths of the existing independence and total discretion of the Auditor-General in providing external audit services to the Parliament and community.' The submission noted that the existing system did restrict competition by establishing the Auditor-General as the sole external auditor of the government but that the benefits of this restriction more than outweighed the costs. While the proponents of competition argued that 'competitive pressures will drive improved quality in service delivery and lower the cost of service provision', the

Auditor-General's submission pointed out these benefits were purely speculative, and would probably be outweighed by costs such as the weakening of the accountability of the government and its agencies to the Parliament.

The reality, however, was that the Auditor-General's Office research team and the authors of the thirty-nine other submissions supporting the maintenance of the powers of the Auditor-General had wasted their time. The review panel released a 'discussion paper' in February 1997 in which it gave a sketchy survey of its thinking on the submissions received and indicated clearly that it intended to recommend a complete restructure of the system of public sector auditing in Victoria. This extract gives an indication of the style of analysis in the discussion paper:

Related to the client issue is the question of who should report to Parliament. The majority of submissions received considered that Parliament has established the office of the Auditor-General to provide a single voice to Parliament in relation to the performance of the whole of government (eg [submissions] 2, 7, 10, 18, 22, 48). However, some submissions indicated that 'the monopoly control exercised by the public audit office under the Act imposes important competitive limitations on the conduct and reporting of public sector audits' ([submission]30).²⁶

Throughout the discussion paper, it appeared that equal weight was given to the eleven submissions in favour of removing the operational powers of the Auditor-General as against the far greater number of submissions pointing out the dangers of this move. However, the conclusions reached by the panel suggested that the submissions had played very little part in its discussions.

Although the government and the review panel both claimed that the Audit Act was the subject of review and not the Auditor-General's office, the discussion paper contained a selection of adverse comments on the performance of the office taken from a small number of submissions and from highly selective quotations from earlier performance audits. Similarly, Jeff Kennett frequently forgot that the review was meant to be of the Audit Act and not the Auditor-General. For example, in March 1997 he commented that Ches Baragwanath 'has got to be subject to audit like anyone else and he's going to have to accept the result whatever it may be'.²⁷

The discussion paper provoked a strong (but unnoticed) response from the Auditor-General, analysing all the main issues raised in the discussion paper, and concentrating particularly on the question of 'Who is the real client?'²⁸ The review panel had attempted to argue that ministers, their departments and public authorities were 'clients' of the Auditor-General, but Ches Baragwanath responded that

The Committee fails to appreciate that there is an essential difference between providing an external audit service to the Parliament, as the Auditor-General does, and the position relating to other interested parties (the authorities and their responsible Ministers) who, as the subject of audit, use the results of the audit service. An Auditor-General cannot be a servant of the Executive Government.

The Auditor-General's response was particularly scathing on the proposal that public bodies should be able to choose their own auditor:

My experience over the last 8 years has led me to conclude that one would have to be extremely naive to believe that Ministers and agencies, and the Parliament have common expectations from the external audit process. In fact, I have experienced considerable frustration over the years in discharging my auditing and reporting responsibilities to the Parliament. There is considerable resistance from the bureaucracy at the prospect of disclosing politically embarrassing findings. Parliament's fundamental right to know is not a principle widely accepted by the bureaucracy which is more motivated by a desire to protect Government and ministerial interests by ensuring potentially sensitive information is not examined and reported to the Parliament ...

In view of the regulatory or whistleblowing element of an Auditor-General's role, to argue for the existence of a client relationship with other than the Parliament could be tantamount to arguing that a client relationship exists between the Victoria police force and the law-breakers in the community.

The discussion paper, taken together with comments by Jeff Kennett, suggests that one of the main aims of the review process was to eliminate or at least neutralise the Auditor-General's performance auditing function. The discussion paper suggested that performance audits should be replaced by performance reviews based on the model of private sector management consultancies. This idea received support from the Premier who publicly criticised the Auditor-General's performance audits because they were carried out by people 'who have never had any experience' in the areas being audited.²⁹ However, the Auditor-General's response pointed out that private sector management consultancies were carried out on terms of reference set by management and reported internally to management, in contrast to performance audits where the objective and scope were determined independently by the Auditor-General's office, and reports were made to Parliament and the community.

A final issue that became a continuing point of dispute between the Auditor-General's office and the review panel was the true nature of the New Zealand model of public sector auditing. During the period of intensive restructuring of the New Zealand economy in the 1980s and early 1990s, that country's Auditor-General decided to divide the work of his office, with Audit New Zealand being established (under the control of the Auditor-General) to carry out financial audits in direct competition with private auditing firms, while the task of controlling the audit process was undertaken by the Office of the Auditor-General. The discussion paper argued that the New Zealand system showed that it was possible to introduce full contestability into public auditing and suggested that contestability had seen a fall in audit costs and an improvement in quality. However, Ches Baragwanath's response pointed out that in New Zealand the Auditor-General remained head of Audit New Zealand, had discretion whether to put audits out to tender or undertake them in-house and did not tender out performance audits. The New Zealand Auditor-General, David Macdonald, commented that the control and capability he retained through his control over Audit New Zealand 'is the big difference between our model and the proposals for Victoria'. He further noted that 'Our structure was not set up because of competition laws but to separate policy and service delivery and to show

that public service auditors are providing value for money.³⁰ This point led the review panel to admit, 'This is a major issue and one which will require further analysis, discussion and consideration of possible remedies', but it did not prevent the panel suggesting a scheme far more extreme than the New Zealand model.³¹

Part Two: The Report of the Review Panel

On 23 April 1997, the Auditor-General presented to Parliament the first part of his report on the Metropolitan Ambulance Service.³² This report, undertaken at the request of the Minister for Health, Rob Knowles, raised 'many concerns about the probity of contractual and outsourcing arrangements at the Metropolitan Ambulance Service'. It found that 'former senior management at the Service throughout this period showed a total disregard for the Government's outsourcing guidelines and normal tendering processes as reform goals were swiftly confirmed'. The Auditor-General regarded the circumstances as so serious and involving so many unanswered questions that they were likely to require investigation by a judicial inquiry. This report was highly embarrassing to the government as it raised major questions about the contracting-out of government services, one of the Kennett government's most dearly held commitments (and obviously at the heart of the government's plans for the restructure of the Auditor-General's office). Interestingly, some Liberal MPs later criticised the Auditor-General for having given the ambulance service a 'clean bill of health' in earlier audits, since, as Ches Baragwanath pointed out, these audits were 'financial audits conducted by a private sector contractor on my behalf'. He agreed that the 'contractor did not identify and report irregularities in ... contract arrangements', but noted that the office sensed that there were problems and 'identified a need for a performance audit in this area'.³³ The report was the genesis for the establishment of a Royal Commission into the ambulance service, prompted by the concerns of the three independents returned to Parliament in the State election of September 1999. The first two terms of reference related to the issues raised in the Auditor-General's April 1997 report, but, in a controversial and unexplained move, the government subsequently dropped these terms of reference from the commission's ambit of enquiry.

The day after the presentation of the Auditor-General's report on the ambulance service, the government released the report of the review panel on the Audit Act. This report confirmed all but the worst fear of the Auditor-General. In the committee's only significant concession to those who made submissions supporting the Auditor-General, it agreed 'that models which suggested that the authorities should choose their own auditor were inappropriate'. Having conceded the most extreme item in the terms of reference, the panel proceeded to recommend the introduction of a radical model of public sector auditing, with no parallels anywhere in the world. The essential features of this model were: removal of the power of the Auditor-General to conduct audits; the dismemberment of the Auditor-General's office, with most staff becoming part of Audit Victoria, a new government-controlled business enterprise (under the control of the Department of Finance) which would compete with private firms for public sector audits; and the creation of a tender panel to allocate audit contracts. The role of the Auditor-General would be to nominate areas for audit, set broad objectives for each audit, and sign the audits completed by Audit Victoria or private firms. As a rather too blatant sop to the

supporters of the Auditor-General, the report recommended that the Auditor-General should become an independent officer of the Parliament — a reform proposed by both Fergus Ryan and Alan Talbot in their reports on the office, but in reality of little more than symbolic importance. In summary, the report proposed that the Auditor-General should be stripped of most of his operational powers, but become more independent of the executive. As many tiny and impoverished third world nations could attest, independence without power is an illusion. Further, although the report might have proposed more independence for the Auditor-General, it lessened the independence of the actual audit process by establishing Audit Victoria as a government business enterprise under the control of the executive.

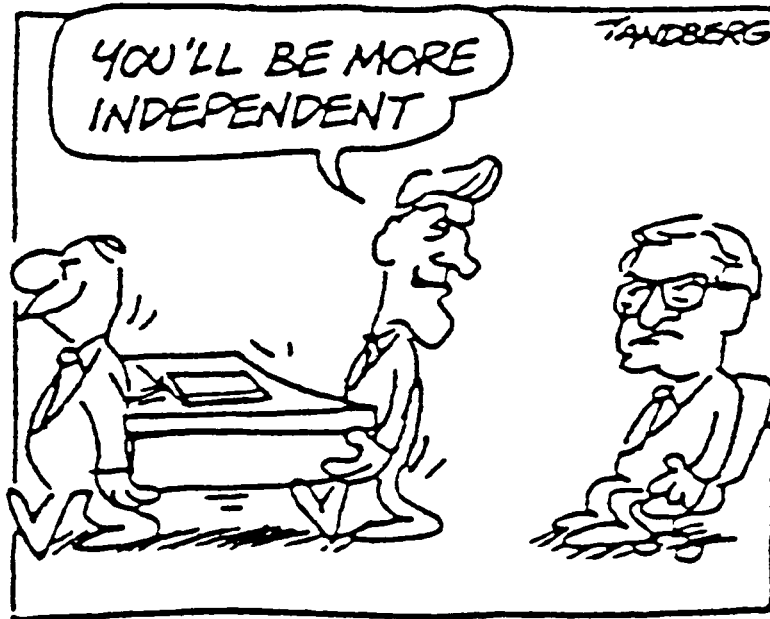
Following the release of the report of the review panel, Jeff Kennett and Professor Maddock attempted to convince a sceptical public that the recommendations were not an attempt to ‘noble’ the Auditor-General. The Premier emphasised the proposed increase in the independence of the Auditor-General and the ‘transparency’ of the new system, while at the same time he attacked the Auditor-General for being ‘emotional’ and criticised the performance of his office. Speaking to a press conference on the release of the report, Mr Kennett said,

You can also say that the audit process as we have known it to date has not recognised all the problems associated with management of government over the last 10, 15 years. There are many examples of where the Auditor-General's office has signed off on audits and we have found out later, and particularly during the Cain-Kirner years, then those audits were not complete ... the Auditor-General under this becomes more independent, if that is possible than ever before.³⁴

The Premier stated that he believed the new system would be more expensive, but ‘that to me isn't the issue. [It is about] making this part of government as efficient and competitive as possible.’³⁵ He argued that ‘The beauty of this, in terms of competition policy under which it was set up, is it gives that full transparency to the auditing process.’³⁶



Ches Baragwanath and John Olesky closely monitored political and community debate during the Audit Act review process.



*How Tandberg saw the government's claim that its reforms would give the Auditor-General greater independence, 25 April 1997.
(Reproduced courtesy Ron Tandberg and the Age.)*

Professor Maddock gave a very full defence of the review process and its findings in a talk to the Institute of Public Affairs on 19 May 1997. He emphasised that the review was about the Audit Act and not the performance of the office of the Auditor-General and that it was dictated by competition policy, which meant that restrictions on competition could only be sustained if they were both in the public interest and there was no other way of achieving the objects of the act under review. He then followed through the process of determining the objectives of the Audit Act, the restrictions on competition in the act and the means proposed to introduce competition. Analysing the projected benefits of the proposed new system, Professor Maddock suggested that 'the clarification of the purchasing role and providing role [has] been shown to reduce the cost of the overall function by about 10 or 20 per cent'. He further claimed that his reforms would greatly improve the quality of performance audits. In spite of his contention that he was not carrying out a review of the performance of the Auditor-General's office, he made reference in his speech to criticisms of the office by anonymous auditees:

We had a lot of discussion with people who had been through performance audits who felt that the inexperience and narrow training of the people in the Victorian Auditor-General's Office meant that they, at quite senior levels in their organisations, had to spend a lot of time actually teaching the people from the Auditor-General's Office about that particular industry. You can see the problem — I'm a university professor and many of our students go to work in the Office of the Auditor-General ... and we train our students in Commerce, they come out 2 or 3 years later, one day they will be out reviewing courts, a week later they might be reviewing hospitals, a week later they might be reviewing the universities and we think that's caused significant problems and Victoria can get much better benefit from the process if there were a wider range of people who actually had skills in those sectors, who are able to bid for that work. That's the second big area where we think there will be benefits.³⁷

Not surprisingly, these comments aroused a certain degree of quizzical concern within the Auditor-General's office. On 13 June 1997 Ches Baragwanath wrote to Professor Maddock pointing out that graduate recruits were used only for financial audits and 'the Office does not recruit graduates in performance auditing. In fact, no staff with commerce and/or accounting qualifications have been engaged as performance auditors for a number of years.' Maddock's reply was succinct: 'Thank you for your note and information. It is always interesting to read your interpretations of these matters.'³⁸

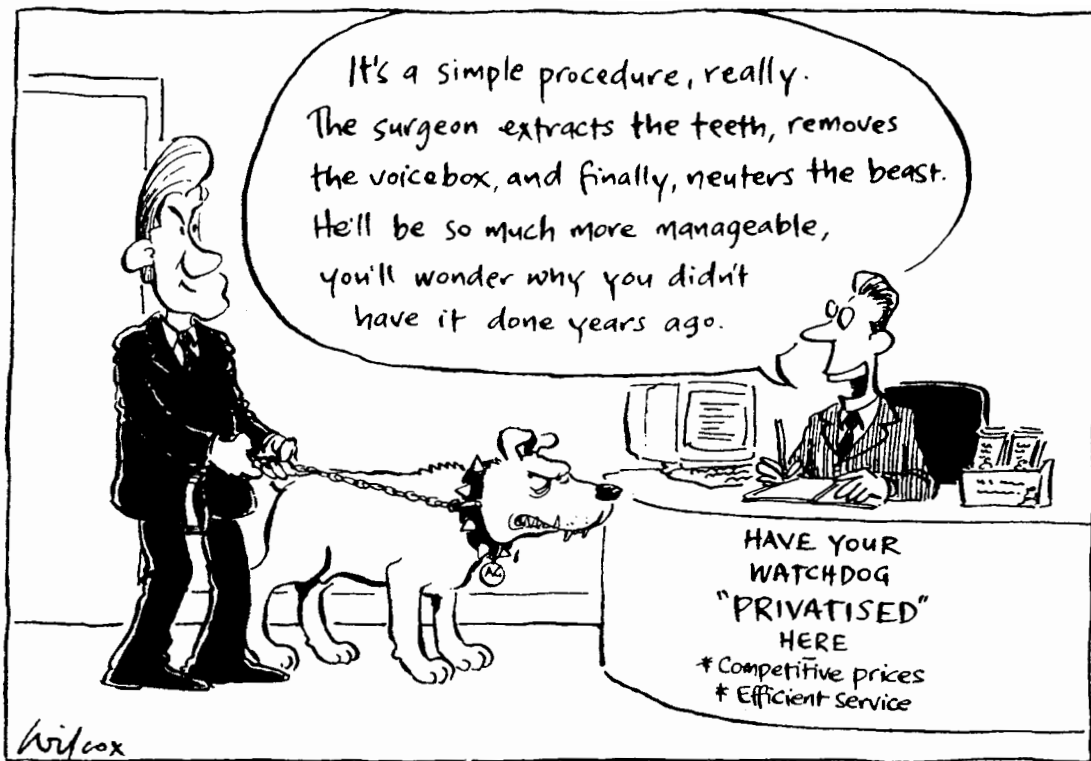
Professor Maddock's attack on the performance audit capabilities of the Auditor-General's office continued a theme begun by the Premier and loyally followed by most of the small number of Liberal MPs who made statements supporting the review process. In February Jeff Kennett had commented that performance audits were conducted by Auditor-General's Office staff 'who have never had any experience' in some of the areas being audited and asked 'Is it more appropriate that those performance audits might go out to an organisation who have experience in these areas?'³⁹ He repeated this argument in April, when he suggested that the future Audit Victoria would be more likely to win audit contracts for areas such as local government, where he believed it had 'special skills', than for performance audits where it lacked skills.

The office's case against this attack on its capabilities was most clearly expressed by business journalist Alan Kohler. Kohler had no problem with contracting out one hundred per cent of all financial audits, but argued that,

performance audits of the sort carried out by a government auditor-general have no equivalent in the private sector ... It is bunk to suggest that this activity could be contracted out to private firms, unless it was to an organisation that virtually replicated the skills of the auditor-general's office.⁴⁰

Professor Maddock and Jeff Kennett criticised Ches Baragwanath for being 'locked into opposing whatever we have done'.⁴¹ As Rodney Maddock put it, 'Ches, you opposed the setting up of this review, you opposed the membership of the review committee, you opposed the terms of reference, you opposed our discussion papers. Is that fair, Ches?'⁴² Jeff Kennett, too, argued that Ches Baragwanath consistently refused to accept change: 'He wants to keep it as it is, with all his people. But that isn't the way it'll be in the future.'⁴³

Ches Baragwanath fought against proposals that he believed would substantially weaken the independence of his office and make his position largely symbolic. Nonetheless he made genuine efforts to achieve a compromise that would satisfy the government's desire to extend competition without lessening the accountability of the government to the Parliament. The Auditor-General explained his suggested compromise solution in a letter to the Premier on 11 July 1997 in which he also gave a detailed response to the report of the review panel.⁴⁴ However, it was clear that Mr Kennett was not interested in considering any form of compromise and he did not adopt any aspect of the Auditor-General's proposals.



*Kathy Wilcox gave a new slant on the watchdog metaphor, 30 July 1997.
(Reproduced courtesy Kathy Wilcox and the Age.)*

Part Three: The Debate in the Community

'Let us pray for our Auditor-General, who has dedicated many years of his life to preserving honesty in government. Grant that he be given strength and the members of parliament be granted wisdom to ensure him the powers to continue his work for the welfare of all the people.'⁴⁵

The most extraordinary aspect of the whole controversy over the powers of the Auditor-General during 1996 and 1997 was the level of public support for Ches Baragwanath and his office. Many of the radical reforms of the Kennett era aroused noisy public opposition, but in most cases the opposition came from the trade unions, the churches and special interest groups directly affected by the changes. As the election of March 1996 showed, the electorate overwhelmingly supported the policies of the Coalition government in its first term. However, the review of the Audit Act attracted opposition from all sections of society, with the government being abandoned even by its strongest traditional supporters. The unrest over the review panel's proposals extended well beyond the usual 'baying crowd' (as Jeff Kennett described them) of unionists, civil libertarians and the churches, to include many Liberal party members and supporters of the coalition government. Commenting on a large public meeting held to protest against the proposed changes to the powers of the Auditor-General, even the Premier conceded that 'Not all the people were ALP members ... far from it, they were citizens who were concerned with change.'⁴⁶

The public outcry against the proposed reforms of the Auditor-General's office remained at a high level throughout 1997, but it reached possibly its greatest peak following the release of the report of the review panel in April. Over the following weeks, the correspondence columns of the newspapers — metropolitan, regional and local — were inundated with letters supporting the Auditor-General, public meetings were held throughout the State, petitions with many thousands of signatures were presented to Parliament, and even Liberal party branches passed motions of support for the Auditor-General. On 14 May 1997, seventy prominent Victorians including former Governor, Davis McCaughey and former chairman of the Public Accounts and Estimates Committee and Liberal minister, Graeme Weideman, signed an open letter to the government warning that implementing the findings of the review panel would seriously undermine the independence and operational discretion of the Auditor-General.⁴⁷ The following day several community organisations, including Liberty Victoria, the Victorian Council of Churches and the Victorian Council of Social Services sponsored a public meeting at the YWCA hall in Melbourne. The response was so great that the hall was filled to overflowing and the organisers had to conduct another meeting on the second floor of the building to accommodate the unexpected numbers.⁴⁸



John Taylor, former Commonwealth Auditor-General, speaking in defence of the Victorian Auditor-General at a public meeting in Melbourne, 16 May 1997.

(The Age.)

The extraordinary public reaction prompted one commentator to observe, ‘I cannot think of a recent issue in this State involving the Kennett Government that has got serious-minded people so worried.’⁴⁹

The Auditor-General received support from the peak bodies of the legal and accounting professions. The Bar Council and the Law Institute of Victoria were unequivocal in their opposition to the proposals of the review panel. A press release by the Bar Council was one of the strongest statements of support for the Auditor-General from any source, arguing that ‘the practical effect of the Government’s proposed changes is to undermine Victoria’s well-established system of public financial accountability’, and ‘under the proposed legislation, the independence of the Auditor-General will be nothing but an illusion’.⁵⁰ Opposition to the government’s proposals was not confined to the legal elite in Melbourne. Many country law associations made comments supporting the Auditor-General and, as the secretary of the Ballarat and District Law Association observed, ‘even some of our more conservative members are absolutely livid about what the Government is trying to do’.⁵¹

The response of the professional accounting bodies was more complex. Not surprisingly, the Institute of Chartered Accountants (ICA), whose members stood to gain most if the review panel’s proposals were implemented, was tempted to support the changes. In a letter to ICA members following the release of the review panel’s report the State chairman, Roger Evans, wrote: ‘It is our considered view that the recommendations of the panel enhance the Auditor-General’s independence and will, in time, be shown to deliver improved quality of service at competitive prices.’⁵² Nonetheless, the ICA joined with the Australian Society of Certified Practising Accountants (CPAs) to demand that Audit Victoria be under the control of the Auditor-General rather than being a government-controlled body and that the Auditor-General should maintain some auditing capability.⁵³ Further, the fact that the members of the ICA had an obvious self-interest in supporting the government’s proposals greatly lessened the value of this support. By contrast, the CPAs were among the strongest supporters of the Auditor-General. The CPA’s response to the review panel’s discussion paper commented that ‘members generally view the direction of the review to date as an attempt to undermine the independence and effectiveness of the role of the Victorian Auditor-General’.⁵⁴ It backed up this statement with some of the strongest and most effective arguments presented against the proposals of the review panel. Two of these arguments were particularly compelling. Quoting from the Institute of Chartered Accountants Handbook, the CPAs pointed out that: ‘fundamental to the independence of the auditor is freedom to **plan and conduct the audit**, report findings and express an opinion free from external influence’. The CPAs also refuted claims that the government’s proposals would lower the cost of public sector auditing, noting that the accounting profession ‘do not expect the introduction of greater contestability to result in an overall lowering of audit fees. Indeed we think the opposite should occur.’⁵⁵

Perhaps the best indication of the depth of community concern at the proposals of the review panel was the unrest among Liberal party rank and file at branch level. This had been obvious from the announcement of the review of the Audit Act in November 1996. One of the strongest submissions supporting the maintenance of the powers and independence of the Auditor-General came from the Main Ridge – Red Hill branch of the Liberal party. The submission emphasised:

This Branch is a strong supporter of the Victorian Coalition Government. Our desire is to see it remain in power for many years to come for the good of Victoria and its people ... We are staunchly behind the Victorian Government's commitment to privatise government instrumentalities where practicable.⁵⁶

The submission then launched into a passionate defence of the position of the Auditor-General, arguing that

... it is essential for the long term survival of the present Victorian Government to take every means available to it to ensure that its administration is free of major inefficiencies and/or suspicion of corruption. A strong, independent State Auditor-General is an essential part of this process.

The Main Ridge – Red Hill submission was particularly scathing in its condemnation of the suggestion in the terms of reference that public bodies should be allowed to choose their own auditors:

If you were the Chief Executive Officer of a government department or agency would you prefer to choose, appoint and pay your own auditor, or would you choose as your auditor a crusty old salt like Auditor-General Ches Baragwanath with a number of government scalps on his belt? The answer is obvious. You would much prefer to appoint and pay your own auditor. At least you would have a better chance of 'persuading' the auditor to ameliorate his public report if something amiss had been found in the audit. Past history confirms this.

In February 1997 the Flinders – Dunkley area conference of the Liberal Party voted 47-3 in favour of a resolution calling on the government to preserve the powers and independence of the Auditor-General in any restructured system of public auditing. Similar resolutions with similar results were passed by many other Liberal party branches and area conferences. Numerous attempts by the party hierarchy to calm the restlessness in the ranks had no impact — possibly because, except for the Premier, no senior Liberal appears to have been committed to the Audit Act review. Bruce Chamberlain recalls that, even though he spoke publicly against the proposals of the review panel, he was criticised by party members in his constituency for not going further in his opposition to changes to the Auditor-General's office. During 1997 many Liberal MPs spoke of being pressured by party members and constituents to oppose Jeff Kennett on this issue and they openly acknowledged that they had lost the public relations debate.⁵⁷



Demonstration on the steps of Parliament House in support of the Auditor-General.

The unrest among the rank and file of the Liberal party culminated at the meeting of the State Council of the party held at Shepparton in November 1997. Five branches put forward resolutions supporting the Auditor-General and condemning the proposals of the review panel. The tone of the Bentleigh resolution was typical, describing Ches Baragwanath as a

friend of the Victorian people [who] has conducted his role in a fearless and independent manner ... It is the Auditor-General who questioned the state indebtedness under Labor ... and more recently the Intergraph dilemma. The Auditor-General is often viewed as an ally in Opposition, yet a foe in government, however, he is an integral part of the democratic process.⁵⁸

The final resolution put to the State Council called on the government to protect the power and independence of the Auditor-General and ensure that he retained control over all public sector auditing staff and overriding control over the contracting out of audits. Speaking in support of the motion, Tom Gillespie of the Main Ridge – Red Hill branch said,

Ask any premier, minister or chief executive if he thought his independence was going to be enhanced by restricting him to a small staff and separating his operational staff from him under an independent board of management — that proposal would be mirth-provoking if the political effect on the Victorian Liberal Party was not so damaging.⁵⁹

The motion supporting the Auditor-General received the support of about ninety per cent of the five hundred delegates, including three Liberal MPs, Geoff Leigh, Inga Peulich and Victor Perton. In stark contrast to the rank and file, however, most MPs either abstained or joined the

tiny minority voting against the motion, while the Premier immediately announced that the resolution would have no impact on the government's policy.⁶⁰

Throughout this period of intense public debate and community interest, communications between the office and its many supporters were critical. In May 1997, the producer of an ABC current affairs program wrote to Ches Baragwanath, 'In my 15 years in the business, across three continents, it's fair to say John [Olesky] is the best media manager I've dealt with.'⁶¹ As corporate communications manager, John Olesky played a vital role in ensuring that the Auditor-General's case was presented loudly and clearly to the public. From the time of the announcement of the review, he produced numerous press releases, replied to endless queries from politicians, the press and the public, liaised with large numbers of community groups and attended many public meetings. His interaction with the media and community groups and with members of the general public was vital to the presentation of the office's perspective on the Audit Act review, and the public relations success of the case for the maintenance of a strong and independent Auditor-General's office owed much to his efforts.

Inevitably the review overshadowed the work of the Auditor-General's office throughout 1997. As Ches Baragwanath observed in the 1996-97 annual report, 'the day-to-day functioning of the Office proceeded against a background of significant uncertainty on the Office's future direction'. He admitted that responding to the review diverted 'an enormous amount of organisational time and effort ... away from the Office's core financial and performance audit streams'. In spite of this the office still presented eight high-quality reports to the Parliament during the year covering a wide range of matters of public interest. From November 1996 the office put a sustained effort into preparing a submission to the review, responding to the discussion paper and the final report, and taking part in countless meetings and other actions. Although this effort appeared to be wasted since it had no impact on the findings of the review panel and the decisions of the government, it was still an important way of marshalling the case against the government's policy and presenting it to Parliament, the press and the public. The government and its supporters realised that they lost the public relations battle over the role of the Auditor-General and a vital factor in this was the strength of the case developed by the Auditor-General's office, together with the effective media and public relations activities managed by John Olesky.

During 1997 the government became increasingly irritated by its failure to make any headway with the media or the public. Even newspapers such as the *Herald-Sun*, which were generally staunch supporters of the Kennett government, strongly and consistently opposed it on the issue of the Auditor-General. The success of the Auditor-General's office in mobilising public opinion behind it led Mr Kennett to begin attacking Ches Baragwanath for campaigning to preserve the powers and independence of his position. On 30 September the Premier said,

The Auditor-General has run a very public campaign which is most unusual. There happens to be a rule in the public service and that is that you are there to do the government's bidding and whether you like it or not, you do it, that's the nature of the professional employment. The Auditor-General has been in breach but we haven't interfered with his right to influence public opinion because if we had you would have all said we were silencing him.⁶²

This comment indicated that the Premier regarded the Auditor-General as a public servant who was 'there to do the government's bidding' and implied that the government was only prevented from silencing the Auditor-General by the fear of the public reaction. It also signalled the start of a renewed attack by the government on the work of the Auditor-General's office.

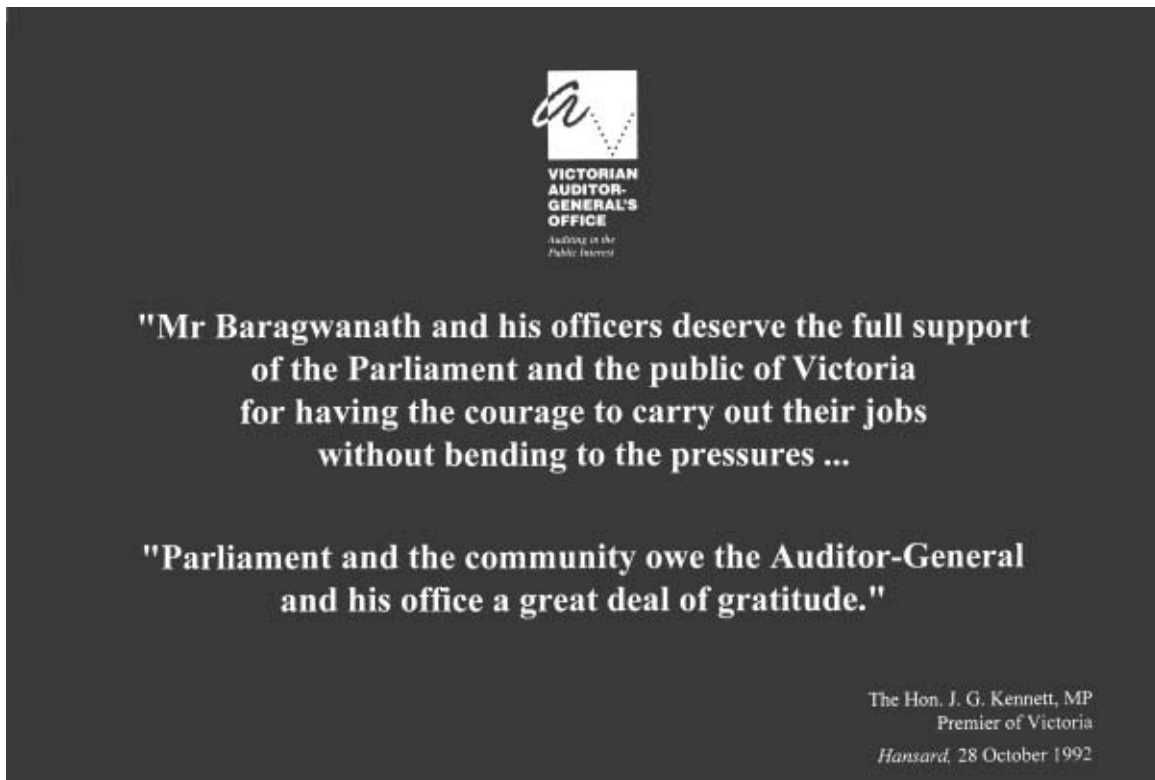
Those familiar with the story of the turbulent relations of the Auditor-General with the Labor government (recounted in chapter 16) will find it incredible that the Kennett government chose to attack the Auditor-General for allegedly failing to report properly on the financial mismanagement of the Cain/Kirner years. Jeff Kennett had presaged this argument as early as May 1997 when he claimed that 'Ches never found the fundamental economic malaise that Victoria was heading to under the Labor Government. He never found it.'⁶³ Later in the year he returned to this theme with enthusiasm, as the *Herald-Sun* reported:

Never forget ... the Auditor-General's office and the way they operated did not save this state from the Cain Labor government's mismanagement. However good the Auditor-General's office is, it did not pick up the way in which the Labor Party syphoned funds off the Budget to hide things in the lead up to the '92 election.

Mr Kennett also said he had restrained senior bureaucrats from publicly criticising the work of Mr Baragwanath's office.

I have got senior public servants who have wanted to speak out against Ches to put a counter point of view, and I have stopped all of them speaking, I don't want there to be a public brawl. Any one of a number of senior public servants ... have very much concerns about the quality of the work that has been done have wanted to speak out and I have said no.⁶⁴

When the media asked John Olesky to comment on the Premier's outburst, he simply pointed to Jeff Kennett's praise for the Auditor-General in 1992, when he had said that Mr Baragwanath and his staff deserved the full support of the Parliament and the public for having carried out their jobs under great pressure in the last years of the Labor government — the quotation being conveniently framed on the wall in the foyer of the Auditor-General's office! It is intriguing that the claimed failings of the Auditor-General were not reported by either of the performance audits of his office carried out by leading private sector auditors in 1992 and 1995. If these auditors could not see the major problems in the Auditor-General's office claimed by the Premier, it was a reflection on the work of the private sector auditors and would appear to cast grave doubts on the wisdom of extending their role in public sector auditing. Conversely, if the performance audits of the office had in fact been satisfactorily carried out, then the Premier's comments are difficult to justify.



Comments by Premier Kennett acknowledging the work and value of the Auditor-General and his staff.

Part Four: The Debate in the Parliament

In the spring of 1997 the focus of the debate moved to Parliament when the government introduced its legislation to restructure public sector auditing. The government attempted to present the legislation as being far removed from the proposals of the Maddock review, although the changes from the review's recommendations were primarily symbolic rather than substantive. The bill embodying the reforms was approved by the Cabinet and discussed in the Liberal party room in the last week of October. There had been considerable speculation in the press that at least ten Liberal MPs would stand firm in defence of the Auditor-General, but their opposition dissolved rapidly when the government made some token concessions. As one senior MP said of the backbenchers, 'There was almost a sense of relief they didn't have to be disloyal.'⁶⁵ The main concessions made by the government involved giving the Auditor-General greater control over the contracting out of audit work and allowing him more staff than envisaged by the Maddock report. In addition, the government dressed up the legislation with measures designed to give the appearance of greater independence to the Auditor-General and these sufficed to pacify the restive backbenchers.



*Tandberg's view of the government's concessions,
29 October 1997.
(Reproduced courtesy Ron Tandberg and the Age.)*

The central feature of the Audit (Amendment) Bill introduced into Parliament on 30 October 1997 was the removal of the Auditor-General's power to carry out audits. All public sector audits were to be contracted out to either private firms or Audit Victoria, established by the legislation as a government business enterprise. The role of the Auditor-General became essentially that of a contract supervisor. While stripping the Auditor-General of power, the bill increased his independence from the executive by making him an independent officer of the Parliament (although the meaning of this was not explained) and several provisions strengthened the links between the Parliament and the Auditor-General.

The introduction of the legislation provoked a final warning from Ches Baragwanath. On 17 November 1997 he wrote to all MPs setting out his position:

My overriding concern with the proposed amendments is that the Auditor-General does not have the power to directly conduct audits in his or her own right ... I know of no other external audit situation, in either the public or private sectors, where the auditor is faced with such serious operational restrictions ... Under professional ethics, it is fundamental to audit independence that an auditor have the freedom to actually conduct audits.

In effect, while the amendments purport to give 'complete discretion' in the performance or exercise of my powers, they effectively remove all operational discretion from the Auditor-General.

The Government's action to strip the Auditor-General of the powers to directly conduct audits will mean that the current audit operational staff will be transferred to a government body (Audit Victoria) with staff answerable to a Board ultimately appointed by the Government. This action will disintegrate the existing experience and knowledge capital of my Office.

... Under the amendments, the role of the Auditor-General will be made less effective and, in turn, the Government's accountability to the Parliament and the community will be diminished.⁶⁶

During the controversy over the Auditor-General, the press regularly reported restlessness on the government backbench, with various members being named as potential rebels. However, rebellion against the Premier's will remained nothing more than speculation until 11 November when former minister and leadership contender, Roger Pescott, the MLA for Mitcham, resigned his seat, giving as his main reason his opposition to the amendments to the Audit Act. In his letter of resignation to the Speaker, Mr Pescott wrote:

Principal among my reasons is the government's intention to alter the role and function of the Auditor-General. Having watched the government's position unfold, I have been uncomfortable from the beginning. I expected commonsense to prevail. It has not. In my considered view, the government's proposals compromise the system of checks and balances which are at the core of our system of government. To me, they run fundamentally counter to the public interest. ...

While I regret the cost and inconvenience caused by a by-election, I see it as a further part of my protest in that it will be a plebiscite on the Auditor-General legislation.⁶⁷

In a letter to the Premier, Roger Pescott reiterated his opposition to the reforms of the Auditor-General's office and commented, 'How amazed would the community be to learn that the large majority of members in the Liberal Party room had not seen the text of the draft legislation on the auditor-general when they approved it.'⁶⁸

The government responded to Roger Pescott's resignation with a series of bitter personal attacks on him in the Parliament, attempting to cast doubts on his motives and claiming that he had not opposed the legislation in the party room.⁶⁹ However, the public response to this was typified by a conservative country newspaper, the *Bendigo Advertiser*, which commented, 'One might expect at this stage the Government would be keen to try to defend its policies. Sadly, it remains true to form and has responded by a fairly brutal assault on Mr Pescott's credibility.'⁷⁰

The central fact of Roger Pescott's resignation was that it meant that the government faced a by-election in a vulnerable seat at a time when the public controversy over the role of the Auditor-General was at its peak. How would the voters of Mitcham judge the government's legislation?

On the same day as Roger Pescott resigned from Parliament, another Liberal backbencher, Peter McLellan, the MLA for Frankston East, attempted to move a motion in the Liberal party room to restore the Auditor-General's power to conduct audits. Although the motion lapsed for want of a seconder, this action reinforced the widespread impression that the Liberal backbench was being dragged unwillingly to support the Premier's desire to emasculate the Auditor-General.⁷¹ Peter McLellan had been one of the most public supporters of the Auditor-General on the Liberal backbench and his action in the party room led to him being placed under enormous pressure to vote against the government's legislation. Although he did not do this, he deserves recognition as the only Liberal MLA to abstain during the final vote (a

National Party MLC also abstained, but not, it turned out, as a matter of principle — he fell asleep and missed the division).⁷²

The parliamentary debate on the Audit (Amendment) Bill had a strange sense of unreality about it as though the coalition and the opposition were debating completely different things. For the opposition, the central issues were democracy and accountability. The Leader of the Opposition, John Brumby, saw the legislation as ‘the greatest threat to the rights of Victorians and to democracy that this Parliament has witnessed’.⁷³ This theme was echoed in every speech from the opposition benches. Steve Bracks, the Shadow Treasurer, went further to argue that the legislation would have its greatest impact on the two key reports of the Auditor-General, the annual reports on ministerial portfolios and the government’s finances. He pointed out that it would be almost impossible to contract out generic reports of this nature as the process of compiling them did not correlate with any form of private sector auditing and no private firm would have the specific expertise and understanding of the process of government to carry them out successfully. Steve Bracks also argued that the legislation would ‘put a straitjacket around performance audits’ because of the difficulties of setting the boundaries for a performance audit and because the large chartered accounting firms would be wary of being critical of the government for fear of jeopardising their lucrative consulting work.⁷⁴



During 1997 ‘Save the Auditor-General’ graffiti appeared regularly around Melbourne.

This speech was one of the few statements made in support of the Auditor-General that came close to recognising what in retrospect appears to be one of the strongest arguments against the government’s legislation. Almost every coalition MP speaking in favour of the

legislation pointed out that seventy-five per cent of public sector audits were already contracted out, and asserted that there could be no argument of principle against extending contracting out to cover one hundred per cent of audits. However, this ignored the fact that the audits contracted out by the Auditor-General were large in number but relatively low in importance. In 1996-97 the Auditor-General was responsible for the audits of over 500 public bodies and the majority of these were relatively small and apolitical and offered no great challenges for private sector auditors. In this category were municipal councils, libraries, hospitals, water authorities, many companies, trusts and joint ventures associated with public bodies, and a large number of minor public bodies such as the Advanced Dental Technicians Qualifications Board and the Victorian Strawberry Industry Development Committee. In stark contrast to organisations such as these, were the major government departments and authorities with billion dollar budgets and deep involvement in the political process. These major audits were always carried out by the Auditor-General's own staff.⁷⁵ The arguments that justified contracting out the audits of the Casterton Memorial Hospital, the Australian Music Examinations Board (Vic.) Pty Ltd, or the Tambo Nicholson River Management Board did not necessarily apply to the Departments of Health or Education, the Treasurer's financial statement, the Grand Prix Corporation or the Public Transport Corporation. Even in simple monetary terms, the agencies whose audits were contracted out accounted for only a small proportion of the entire Victorian public sector. Further, prior to the legislation of 1997, the Auditor-General did not contract out any performance audits, as no private sector firms had experience or expertise in this form of auditing. The 'seventy-five per cent' argument, therefore, was fallacious, although it was not fully exposed as such during the public debate.

In the parliamentary debate, most government members used three main arguments to support the legislation. They all relied heavily on the 'seventy-five per cent' argument; they all pointed to the provisions in the legislation to enhance the Auditor-General's independence; and most argued that the reforms were not as bad as the opposition said. None showed any enthusiasm for the changes or argued that they were an improvement on the existing system.

The most coherent statement of the government's argument came from the Treasurer, Alan Stockdale.⁷⁶ Mr Stockdale concentrated on the government's claims that the reforms protected and enhanced the independence of the Auditor-General. He summarised these into twelve essential points:

1. ... the Bill, for the first time, expressly provides that the Auditor-General is an independent officer of the Parliament.
2. Clause 7 gives the Auditor-General total control over his audit program and makes his activities accountable to the Parliament and not the Executive Government ...
3. Under the new system, the Auditor's Budget will be via the Parliament, further enhancing the Auditor-General's independence from the Executive.
4. Under Clause 8, the Auditor-General reports to Parliament each six months on his auditor appointments. There is no role for the Executive in this process.

5. The Bill sets up a tender process but expressly allows the Auditor-General to depart from that process and appoint auditors without going to tender.
6. New sections ... expressly give the Auditor-General control over whether audits are conducted, how audits are conducted and the priority given to audits and provides that he is 'not subject to direction from anyone' on these matters.
7. The Auditor-General will have the same control over all auditors as he currently has. Even now the Auditor-General has chosen to conduct 75% of his financial audits via contractors. It is absurd to suggest that the Auditor-General does not control that 75% of his financial audits.
8. The Auditor-General calls and lets tenders for public audit work. He is the purchaser of public audit work. As such he should not be a competitor to win tenders to provide audit work. Thus the purchaser-provider roles need to be separated. The Bill does that. The Parliament is not the purchaser of public audit work.
9. Only the Auditor-General can decide to sign or not to sign an audit opinion. Only the Auditor-General reports to Parliament. This guarantees the Auditor-General total control over the audit process and the actual content of audit reports ...
10. The Auditor-General has the sole power and authority to conduct the tender process for, engage and supervise auditors whether they are public sector or private sector auditors ...
11. The Auditor-General will have the staff needed to supervise and manage the work of auditors just as he does now.
12. The Auditor-General and all auditors, whether they are employed in the public or private sectors, are bound by professional ethics to carry out their audit work properly, professionally and honestly. These ethics protect the audit process equally whether the auditors are Government employees or Contractors.⁷⁷

The points made by the Treasurer appeared endlessly in coalition speeches and press releases. However, the government's opponents saw the moves to enhance the independence of the Auditor-General as merely symbolic if he was at the same time stripped of his operational independence and his power to carry out audits. The Auditor-General's office prepared a point-by-point refutation of the Treasurer's arguments:

1. The value of the designation of the Auditor-General as 'an independent officer of the Parliament' is primarily symbolic ... especially as the legislation precludes the Auditor-General from any direct involvement in any audit activity ...
2. Under the previous legislation, the Auditor-General was solely responsible to the Parliament in the discharge of audit responsibilities. The Auditor-General was completely independent of the Executive Government on all audit matters and reported directly to the Parliament ...
3. ... Although ... full funding via the Parliament is a progressive move, the important issue is not the source of funding but whether staff are answerable solely to the Auditor-General who is independent of Government. Under the new legislation, audit staff will be transferred and

answerable to a Government statutory authority, Audit Victoria, controlled by Directors appointed by Government ...

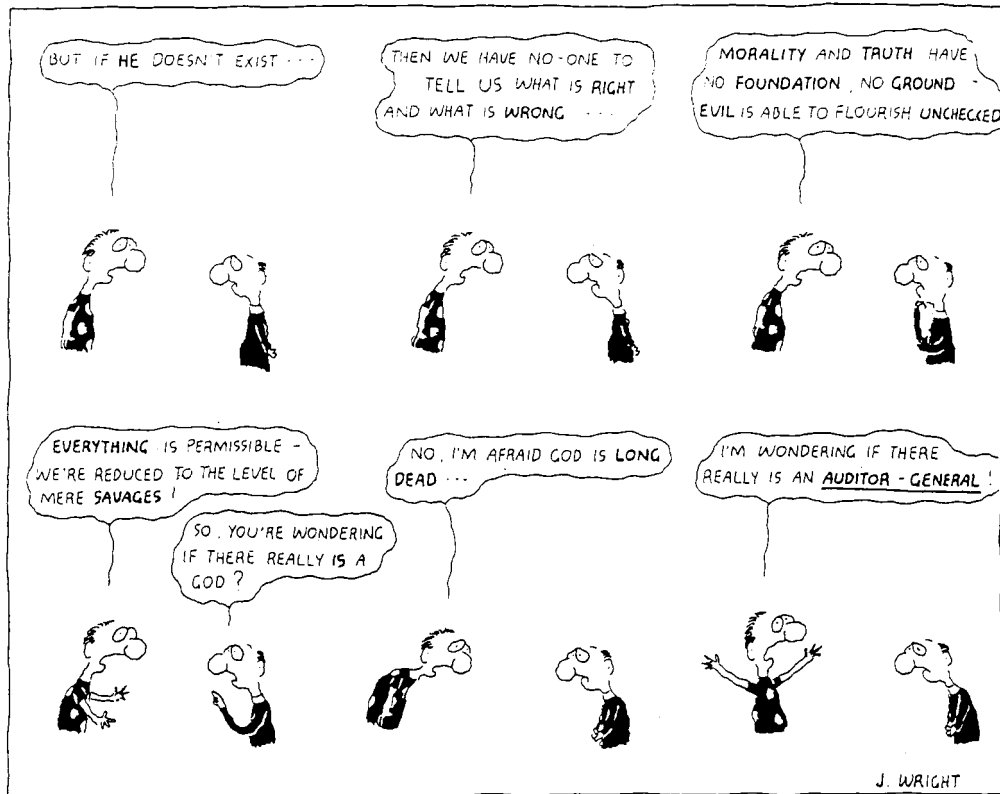
4. Under past arrangements, the Auditor-General had been accorded total discretion by the Parliament in determining how audits will be resourced...
5. [The strict conditions imposed on any departures from the tender process] constitutes a significant weakening of the Auditor-General's operational independence compared with the previous arrangement where the Auditor-General had full discretion on all audit matters...
6. ... the Auditor-General is stripped of the power to directly conduct audits ... No other external auditor, in either the private or public sectors, is faced with such serious operational restrictions.
7. ... Under the new regime, the Auditor-General is forced to use external contractors only. The adverse consequences of this restriction on the Auditor-General's decision-making and independence is highlighted by the fact that virtually all of the issues reported in detail to the Parliament by the Auditor-General arising from financial audits come from those audits assigned to specially trained inhouse staff. These audits are specifically identified and allocated to staff as part of annual planning. The remaining audits (the 75% assigned to private sector auditors) produce almost nothing for reporting to the Parliament because those auditors are primarily experienced in furnishing an opinion on financial statements only...
8. ... Representing the State's shareholders (the community), the Parliament is the sole purchaser of audit services from its exclusive auditor, the Auditor-General. Likewise the exclusivity of the Auditor-General as the Parliament's appointed auditor means that the Auditor-General is the sole provider of external audit services to the Parliament...
9. All these conditions applied previously ...
10. All this point does is reinforce that, in future, the Auditor-General's role will be effectively reduced to that of a contract administrator.
11. Presently, the Auditor-General has specially-trained staff which not only supervise and manage audits but also actually conduct audits. In future the experience and knowledge capital of the Auditor-General's office will be disintegrated as operational audit staff will be removed and become responsible to an external party and, in the case of Audit Victoria, to a Government body.
12. ... professional auditing standards worldwide require that fundamental to the independence of the auditor is freedom to plan and conduct the audit, report findings and express an opinion free from external influence. In other words, the central issue is the incompatibility with the concept of audit independence of the procedural directions imposed on the Auditor-General under the new legislation.⁷⁸

The Treasurer's eighth point reflects one of the most strongly ideological aspects of the review and reform of the Audit Act. The economic rationalists of the 1990s insisted on making purchaser/provider splits wherever possible. Professor Maddock argued that this was a matter of splitting the brains from the brawn: 'The brains is the Office of the Auditor-General, the

brawn is in Audit Victoria in our model.⁷⁹ The advantages of this split are never made clear and, indeed, appear to defy common sense. To this writer it conveys a science fiction image of the Auditor-General as a pulsating brain in a glass bottle, with Audit Victoria as a blundering, brainless robot, and it leads one to remember that the success of the human species is due to the unique combination of brains and brawn in one body. The unreality of the review panel's proposition was displayed by the inability of the protagonists to agree on who the purchasers and providers actually were in the matter of the provision of public sector auditing services. To Ches Baragwanath it was clear that Parliament was the purchaser and his office was the provider, while Professor Maddock and the Treasurer argued that the Auditor-General was the purchaser, so, in their ideologically driven model, he could not also be the provider. This contorted logic provided the main justification for splitting the Auditor-General's office.

The Audit (Amendment) Act became law on 16 December 1997, with its provisions coming into effect on 1 July 1998. On the preceding Saturday, 13 December, the voters of Mitcham had given their verdict on the legislation. In a by-election fought largely on the issue of the Auditor-General, there was a swing of over fifteen per cent to the Labor party, which won the seat with over sixty per cent of the two party preferred vote. The Liberal party's primary vote fell from fifty-three to thirty per cent.

The government blamed its defeat at Mitcham on a 'marketing failure' and began a campaign to 'sell' the changes to the Auditor-General's office to the electorate. Local and regional newspapers throughout the State were flooded with letters from Liberal MPs justifying the changes. These normally followed the formula adopted by coalition MPs during the Parliamentary debate, repeating the Treasurer's twelve points for demonstrating the independence of the Auditor-General and using the 'seventy-five per cent of audits already contracted out' argument.⁸⁰ However, some members attempted to muster some positive arguments in favour of the new arrangements. The MLA for Bendigo East, Michael John, argued that 'Labor's financial mismanagement and deceitful conduct of the 1980s could have been avoided if legislation like this had been in place.' He also suggested that contracting out all audits was better than the Auditor-General 'trying to do bits and pieces of the work personally'.⁸¹



John Wright's feelings on the passing of the government's reforms of the office of the Auditor-General, 30 November 1997.

(Reproduced courtesy John Wright and the Age.)

Following the Mitcham by-election defeat, the Liberal party closed ranks and attempted to paper over its divisions on the issue of the Auditor-General. At the meeting of the party's State council in Hawthorn in April 1998 the Main Ridge – Red Hill branch moved a resolution calling for the repeal of the Audit (Amendment) Act. Branch delegate, Tom Gillespie, spoke in favour of the motion, arguing that the changes meant that the Auditor-General would 'know less and less as time goes on and perhaps this is the motivation for raising the issue in the first place'. He continued, 'On any test, this act is totally unnecessary. It is now proven beyond all doubt to be an electoral millstone around our necks and has tarnished, and will continue to tarnish our reputation as surely as battery acid corrodes metal.'⁸² However, the Liberal Party had lost patience with dissenters and the motion attracted only ten supporters. As Tom Gillespie's speech was drowned out by catcalls from the delegates, he made a final prophetic comment, 'See you at the next State election.'⁸³

¹ Independent Committee of Inquiry into Competition Policy in Australia, *National Competition Policy*, Canberra, 1993.

² Competition Policy Task Force, *Victorian Government Timetable for Review of Legislative Restrictions on Competition*, June 1996.

- ³ Jeff Kennett did not make himself available to explain his reasoning. His response to an invitation to do so was, 'I am no longer part of Victoria's public life, nor am I interested in dwelling on the past'; letter to the author, 20 August 2001.
- ⁴ In conversation with the author, Roger Hallam, the Minister for Finance in 1996 and Bruce Chamberlain, the President of the Legislative Council, both stated that the announcement of the review of the Audit Act came as a surprise and neither was consulted in advance. A government MP was quoted as saying that the first time the backbenchers heard about the review was when the opposition asked questions about it in Parliament; *Sunday Age*, 1 December 1996.
- ⁵ National Competition Council, *Annual Report*, 1998-9, pp. 53-75.
- ⁶ *Age*, 28 November 1996.
- ⁷ A Minor Review of Certain Elements of the [Tasmanian] Financial Management and Audit Act, 1998? copy in VAGO archives.
- ⁸ *Herald-Sun*, 27 November 1996.
- ⁹ *Australian*, 25 November 1996.
- ¹⁰ 'A Tory', 'The Tory Creed and the Unionist Alliance', *Fortnightly Review*, January 1903, pp. 3-4.
- ¹¹ *Age*, 17 May 1997. Author's emphasis.
- ¹² Parkinson, *Jeff*, pp. 65-6.
- ¹³ *Age*, 28 April 1997.
- ¹⁴ Auditor-General's Office, Annual Report, 1996-97, p.11; *Age*, 12 December 1996.
- ¹⁵ *P.D.*, vol. 433, pp. 1433-4, 21 November 1996
- ¹⁶ *Age*, 30 November 1996.
- ¹⁷ *Age*, 23 and 29 November 1996; *Herald-Sun*, 23 November 1996.
- ¹⁸ *Herald-Sun*, and *Age*, 25 November 1996.
- ¹⁹ Steve Crabb, 'Watchdogs can sleep', *Herald-Sun*, 26 November 1996.
- ²⁰ *Herald-Sun*, 29 November 1996.
- ²¹ *Herald-Sun*, 3 December 1996.
- ²² *Age*, 12 December 1996
- ²³ The submissions to the review panel were eventually released by the government in July 1997.
- ²⁴ Public Accounts and Estimates Committee, 'Inquiry into 1997-98 Estimates, Minutes of Evidence', 19 May 1997. I am grateful to Bruce Chamberlain for making available a copy of this document and for his insights into the controversy over the powers of the Auditor-General.
- ²⁵ The most accessible publication of the Auditor-General's submission to the review panel is in the *Report on Ministerial Portfolios*, May 1997, pp. 313-448.
- ²⁶ Audit Act Review Panel, 'Discussion Paper', February 1997.
- ²⁷ *Herald-Sun*, 13 March 1997.
- ²⁸ The response to the discussion paper was published in the *Report on Ministerial Portfolios*, May 1997, p. 451-70.
- ²⁹ *Age*, 27 February 1997.
- ³⁰ *Business Review Weekly*, 19 May 1997.

- ³¹ Many of the alleged benefits of the New Zealand model were shown to have little substance in a submission to the review panel by Alan Crasswell, Professor of Accounting at the University of Sydney, but this did not inhibit the panel from repeating claims for the model's virtues.
- ³² Victorian Auditor-General's Office, Special Report no. 49, *Metropolitan Ambulance Service: contracting and outsourcing practices*, April 1997.
- ³³ Ches Baragwanath to Martin Dixon MLA, 6 August 1997, copy in VAGO archives.
- ³⁴ Transcript of press conference from the Premier's web site (www.premier.vic.gov.au), copy in VAGO archives.
- ³⁵ *Age*, 28 April 1997.
- ³⁶ *Australian*, 25 April 1997.
- ³⁷ A transcript of this speech is in the VAGO archives.
- ³⁸ Rodney Maddock to Ches Baragwanath 26 June 1997, in VAGO archives.
- ³⁹ *Age*, 27 February 1997.
- ⁴⁰ *Age*, 28 April 1997.
- ⁴¹ Speech by Rodney Maddock at the Institute of Public Affairs, 19 May 1997.
- ⁴² Speech by Rodney Maddock at the Institute of Public Affairs, 19 May 1997.
- ⁴³ *Age*, 26 April 1997.
- ⁴⁴ Ches Baragwanath to Jeff Kennett, 11 July 1997, copy in VAGO archives.
- ⁴⁵ *Herald-Sun*, 10 November 1997.
- ⁴⁶ *Age*, 17 May 1997.
- ⁴⁷ *Age*, 14 May 1997.
- ⁴⁸ *Age*, 16 May 1997.
- ⁴⁹ Mike Richards in the *Age*, 16 May 1997.
- ⁵⁰ Victorian Bar Council, Media Release, 30 October 1997.
- ⁵¹ *Ballarat Courier*, 16 August 1997.
- ⁵² Roger Evans, Victorian chairman of the ICA, to members, 21 May 1997, copy in VAGO archives.
- ⁵³ *Australian*, 22 July 1997.
- ⁵⁴ Australian Society of CPAs to Professor Maddock, 17 March 1997, copy in VAGO archives.
- ⁵⁵ An open letter from the Australian Society of CPAs, 14 August 1997, copy in VAGO archives.
- ⁵⁶ Submission to the Audit Act review panel by Main Ridge – Red Hill branch of the Liberal party.
- ⁵⁷ For example, *Age*, 23 and 30 May 1997.
- ⁵⁸ *Herald-Sun*, 7 October 1997.
- ⁵⁹ *Australian*, 13 October 1997.
- ⁶⁰ *Sunday Age*, 12 October 1997; *Australian*, 13 October 1997.
- ⁶¹ Kathy Lord, Producer, Stateline, ABC TV Melbourne to Ches Baragwanath, 6 May 1997; copy in VAGO archives.
- ⁶² *Herald-Sun*, 2 October 1997.
- ⁶³ *Herald-Sun*, 16 May 1997.
- ⁶⁴ *Herald-Sun*, 21 November 1997.

⁶⁵ *Age*, 1 November 1997.

⁶⁶ Ches Baragwanath to Members of Parliament, 17 November 1997, copy in VAGO archives.

⁶⁷ *P.D.*, vol. 437, p. 929, 11 November 1997.

⁶⁸ *Age* 12 November 1997.

⁶⁹ See especially Alan Stockdale's speech in the Legislative Assembly, *P.D.*, vol. 437, pp. 1002-5, 12 November 1997.

⁷⁰ *Bendigo Advertiser*, 14 November 1997.

⁷¹ *Age*, 13 November 1997.

⁷² *Age*, 11 December 1997. In July 1998 Peter McLellan resigned from the Liberal Party, citing the amendments to the Audit Act as one of his main reasons. In the election of September 1999 he stood as an independent for his electorate of Frankston East, but sadly died of a heart attack on polling day. The Labor party's victory in the subsequent by-election confirmed the defeat of the Kennett government.

⁷³ *P.D.* vol. 437, pp. 1333-6, 20 November 1997.

⁷⁴ *P.D.* vol. 437, pp. 1294-1300, 19 November 1997.

⁷⁵ The Auditor-General's office had developed a strategic approach to the issue of contracting out audits. This approach was outlined in the Auditor-General's Office, *Annual Report, 1996-97*, p. 31.

⁷⁶ *P.D.* vol. 437, pp. 1341-4, 20 November 1997.

⁷⁷ This summary of Alan Stockdale's arguments comes from a Treasury press release, 20 November 1997, copy in VAGO archives.

⁷⁸ 'Comment on the 12 points mentioned in Treasurer's news release of 20 November 1997', memorandum in VAGO archives.

⁷⁹ Speech to the Institute of Public Affairs, 19 May 1997.

⁸⁰ See, for example, the *Warrnambool Standard*, 1 December 1997; *Oakleigh/Monash Times*, 3 December 1997.

⁸¹ *Bendigo Advertiser*, 25 November 1997.

⁸² *Financial Review*, 6 April 1998.

⁸³ *Age*, 5 April 1998.

19

Reaffirmation: the restoration of the Auditor-General's Office, 1998-2001

Part One: 'The Parliament has spoken'

The Auditor-General and his staff felt that the system set up by the *Audit (Amendment) Act 1997* was a theoretical travesty that would prove cumbersome and costly in practice and would probably lead to a serious decline in the quality of the information presented to Parliament. In spite of this, Ches Baragwanath was determined to avoid accusations of 'white-anting' the legislation, so he pledged that he and the office would try to make the system work. He wrote,

Irrespective of differing views concerning the justification or otherwise for the amendments to the State's audit legislation, the Parliament has spoken and my Office is therefore firmly committed to managing the new legislative framework on behalf of the Parliament in the most efficient and effective way.¹

The Auditor-General and his senior staff believed that the central problem with the audit regime devised by Professor Maddock and implemented by the Kennett government was the separation of the Auditor-General's office from the auditing function. As Ches Baragwanath put it, 'How the level of competence in both performance and financial auditing can be maintained within the Office over time without on-going practical participation in audits is far from clear at this stage.'² Professor Maddock responded to such criticisms by arguing that 'This supposes that senior auditors, who have spent a lifetime in the profession and who continue to manage others in the audit task, will forget how to do the work.'³ In the short term this was obviously true, but it appeared to presume that the senior staff of the Auditor-General's office would never leave or retire and that auditing theory and practice were unchanging.



Ches Baragwanath and a whole new ball game, 1998.

The Auditor-General's office underwent its third triennial performance audit in the middle of 1998, at the time the new legislation came into effect. The audit was carried out by Stuart Alford of Ernst and Young, one of the major chartered accounting firms that stood to benefit from the new system. Despite this, Alford expressed strong reservations about the consequences of splitting the office and removing the Auditor-General's power to conduct audits.

The first of the 'key findings' of Alford's performance audit report was:

The range of activities conducted by the Auditor-General has led to his Office building up a significant knowledge base regarding its public sector clients and their business activities. In moving into a full contestability arrangement care will be needed to ensure that these knowledge assets are not eroded. A separate, but related, issue will be to protect the auditing competence which has been developed within the Audit Office.⁴

While the review panel had lightly dismissed the Auditor-General's concerns, a senior audit partner in a major accounting firm saw the difficulties in maintaining auditing competence in an office forbidden by law to do any auditing.

In his report Alford emphasised the problems facing the Auditor-General's office caused by the model of auditing imposed by the government. He saw that the office faced a challenge to stay in touch with the day-to-day operations of the Victorian public sector and

argued that the office would require extra resources to enable its staff 'to retain a sufficiently detailed knowledge of the risks, issues and operations of public bodies'. Alford pointed out that 'The Auditor-General's direct involvement ... in financial and compliance audits has been a vital factor in understanding an agency's business, in the conduct of an appropriate audit and in the identification of relevant special reviews and performance audits.'⁵ Now that the Parliament had barred this direct involvement, Alford suggested that the Auditor-General or a member of his staff should sit on all public sector audit committees and that staff members should be seconded to private contractors' audit teams.

Stuart Alford pointed to a central problem in the new system that had not been considered by its designers — namely, the ability of the Auditor-General to carry out his unique 'audit overview' role. This role, which results in the delivery to Parliament of the annual *Report on Ministerial Portfolios*, had never been specifically set out in the *Audit Act* but had become the focus of much of the work of the office as well as a central element in the accountability process of the executive government to the Parliament and the public. However, the introduction of the new system of public sector auditing by the Kennett government led to uncertainty over the future of the Auditor-General's audit overview role and the central reports that came from it. In a system in which audits were carried out by dozens of private firms and the Auditor-General had no direct role in auditing, how would it be possible to maintain the knowledge and understanding of the whole public sector required for an audit overview of the whole of government?⁶

The Auditor-General and his senior staff developed several strategies to lessen the potential for damage to the processes of public accountability inherent in the new auditing arrangements. They tested the legal boundaries the amendments to the *Audit Act* imposed on the activities of the office. The most extreme interpretation the office suggested was that the act did not prohibit the Auditor-General from nominating his own staff as 'authorised persons' to conduct audits. Legal opinion quickly rejected this interpretation, with Colin Howard QC arguing that 'If the Auditor-General were able so easily to circumvent the obvious intent of the remodelled Act, he would have the power, potentially, to defeat its entire competition policy purpose by re-establishing his former monopoly.'⁷ Another request for legal advice brought the unwelcome opinion that the new Act prevented the Auditor-General from demanding draft reports from contractors or even negotiating with them to define the form and content of reports.⁸ However, the office was more successful in some of its narrower testings of the Act. In particular, the Government Solicitor agreed that the Auditor-General had the power to undertake additional work to enable the preparation of reports to the Parliament.⁹

The process of splitting the Auditor-General's office as required by the new legislation was the most traumatic event in its history (although it was possibly exceeded two years later by the process of putting it together again). Under the legislation, the new system was to begin on 1 July 1998, so the first half of the year was dominated by the processes of planning and implementing the dismemberment of the office, the formation of Audit Victoria and the introduction of contestability. For long-serving staff in particular this was a

sad experience, one recalling that ‘Until this time the Audit Office had always had a great camaraderie — everyone had been proud to work for the office and took pride in its reports. It was a vibrant organisation, but the break-up inevitably led to demoralisation.’

The office had about 150 staff when the new legislation was passed in December 1997. Of these, seventy-seven transferred to Audit Victoria, about forty-five remained in the Auditor-General's office, with most of the remainder moving to the private sector. The allocation of staff between the Auditor-General's office and Audit Victoria was a lengthy process that was not completed until the day before Audit Victoria began independent operations, mainly because of delays in establishing the management structure of Audit Victoria.

Following consultation with the Auditor-General, the government appointed the five member board of Audit Victoria early in 1998, with prominent business leader David Elsum as chairman. Two interesting appointments were former Assistant Auditor-General Flav Belli (on the nomination of Ches Baragwanath) and Professor Keith Houghton, who had made a submission to the Maddock review questioning the potential benefits of competition in public sector auditing. The board appointed Paul Barker, formerly with Deloitte Touche Tohmatsu and the Standard Chartered Bank, as chief executive officer. Ches Baragwanath recalls that Barker was decisive and clear-headed during the negotiations over the splitting of the office and helped to make the best of a difficult process.

The illogical position and structure of Audit Victoria inevitably made it a strange, hybrid creature, but its board, management and staff worked hard to overcome its inherent limitations. Set up as a public sector agency to compete with the private accounting firms, Audit Victoria recruited well and soon developed a culture close to that of its private sector competitors. It tendered for a wide variety of work, gaining contracts for internal audits as well as external audits and branching out from auditing into training and consulting. Ches Baragwanath reflects with pride on the success with which his staff became salesmen and marketeers on moving to Audit Victoria. He felt that he and his predecessors had built up a magnificent staff with the skill and commitment normally associated with the private sector and they proved able to adapt quickly to their new environment.

By its second year, with the aid of substantial injections of government money, Audit Victoria was profitable and, as a commercial entity, it appeared to have a bright future. However, it could never overcome its untenable position of being a public body under the ultimate control of the government, whose function was to audit the government. While the Premier and his supporters claimed that they had made the Auditor-General more independent of the executive, Audit Victoria clearly had far less independence and was very much a part of government. Previously auditors of the Victorian public sector had been responsible to the Auditor-General, but now they were responsible to a board appointed by and responsible to the government. Ches Baragwanath always argued that contracting out audits to a government agency over which the Auditor-General had no control at all was a nonsense. The anomalous position of Audit Victoria as a part of the government was

emphasised by the fact that it was responsible for the audit of the Treasury and other major government departments as it was the only body with the expertise to do these audits.

While the origins of Audit Victoria inevitably meant that it was very close to the Auditor-General's office, and the two organisations initially shared many resources such as information technology, library, and payroll, they rapidly grew apart. Audit Victoria deliberately encouraged a private sector culture, and the Auditor-General's staff had to learn to treat it as just another contractor. The Auditor-General's office had to review audits carried out by Audit Victoria in the same way as those of other providers and this sometimes created friction between people who had worked together for years. After twelve months the break between the two organisations was real.



The office's stand at the Royal Melbourne Show has helped to raise the profile of the office with the general public.

From 1 July 1998 the Auditor-General planned to subject all financial audits to contestability over a three year period to allow the office to develop its expertise in contract management, tender specifications, tender evaluation and benchmarking of audit costs. During 1998-99, 160 financial audits including audits in the local government sector and the audit of the government's annual financial statement, were contracted out following a public tender process attracting about 1100 tenders. Thirty contracts were awarded to Audit Victoria and twenty-eight to three former staff members, David Sturgess, Mark Strickland and Stan Naylor, of HBL Mann Judd. However, as financial audits in progress on 1 July 1998 had been transferred to Audit Victoria, and it was successful in winning contracts for

many major audits, over half the total payments to contractors for 1998-99 went to Audit Victoria.

Performance audits in progress on 1 July 1998 were also transferred to Audit Victoria, with future audits to be subjected to contestability. The contract for the first performance audit under the new system (on building controls in Victoria) was won by Deloitte Touche Tohmatsu, which subsequently won the contract for a performance audit on intellectual disability services. A further performance audit of non-metropolitan urban water land authorities was won by Ernst and Young. The Auditor-General found that there was not a strong market of firms with the capacity to meet the office's performance audit requirements and he was unable to proceed with plans to establish a panel of performance audit contractors.

The primary argument of the supporters of national competition policy was that it would lead to greater efficiency and reduce the high cost structure of the Australian economy. Strangely, although national competition policy was the reason given to justify the review and restructure of the Auditor-General's office, none of the supporters of the new system argued that it would reduce the cost of public sector auditing. Professor Maddock, for example, suggested that the three benefits of his proposals would be:

- the quality of the audit work will improve with the more extensive use of competition; and,
- the purchaser/provider split will improve the administration of the processes arising from a sharper definition of roles, with an Office of the Auditor-General which focuses more on strategic issues and an Audit Victoria with a commercial board concentrating on issues of practice and product quality; and
- control of the audit will move closer to Parliament and further from the influence of the Executive of the day.¹⁰

In fact, the new audit regime resulted in extensive duplication of work and a substantial rise in the cost of auditing. Before 1997 the office had often noted that it was substantially more expensive to contract out audits than to do them in-house, and that audits were only contracted out because the office did not have enough staff to do them all in-house.¹¹ The higher cost of contracted audits was due to the higher pay structure in the private sector and, most obviously, the fact that it included the accounting firms' profit margin.¹²

Duplication of work came from the obligation of the Auditor-General's office to carry out extensive quality assurance work to ensure that contracted audits were carried out properly. As Stuart Alford's performance audit had recognised, the splitting of the Auditor-General's office threatened to greatly **reduce** the quality of audits and the quality assurance function was needed to avoid this happening. The office had to maintain its own financial audit resources to produce the *Report on Ministerial Portfolios* and the *Report on the Government's Finances*. There was substantial duplication of work in performance audits arising from the Auditor-General's legislative responsibility for the development of performance audit specifications and for consultation with the audited agencies and the

Public Accounts and Estimates Committee before inviting tenders. This critical planning phase, involving the formulation of audit objectives, determination of the scope of the audit, and identification of potential audit issues, required the office to maintain in-house expertise. The office also needed to monitor the contractors' work and, as the Auditor-General was solely responsible for reporting to Parliament, it had to ensure that all conclusions could be substantiated through unassailable audit evidence and that the final report met the needs of the Parliament and the community and upheld the reputation and integrity of the Auditor-General.¹³

Ches Baragwanath frequently talked of retirement during the controversy that surrounded his office during 1996-97, speculating that golf or travel might be more pleasant than fighting to divert the government from its attack on his office.¹⁴ However, he decided to stay while the changes were implemented to limit the damage they caused to the system of public accountability and because he felt that he had an obligation to protect the interests of his staff. By February 1999, he felt that he had done his best on both counts and shortly before his sixty-fourth birthday, announced that he would retire on 1 August. As was his habit, he used a sporting analogy, saying he had had a good innings but it was time to pull up stumps. 'I've enjoyed my innings, even though some of my critics may have questioned my batting and bowling technique.'¹⁵ Reflecting on his career, Ches Baragwanath thought that the fact that both sides of politics saw him as 'bloody-minded and intransigent' was a mark of success.¹⁶

Ches Baragwanath's final report to Parliament was the *Report on Ministerial Portfolios* presented in May 1999. His foreword had three main themes. He noted that during his term of office there had been a 'quiet revolution' in public sector financial management and he praised the Kennett government for the introduction of accrual accounting by government departments, accrual based appropriations, and the presentation in 1997 of audited whole-of-government accounts for the first time. These reforms, largely driven by Alan Stockdale and Roger Hallam, were among the most important, if unheralded, achievements of the Coalition government. While praising the government's financial reforms, Ches Baragwanath was highly critical of its obsessive secrecy. In recent years he had to,

continually counter claims that information I intend to include in my Reports to Parliament is commercially confidential. There appears to be a widely held belief, particularly prevalent among senior bureaucrats, that financial arrangements with the private sector should be shielded from parliamentary and taxpayer gaze.

Unless Parliament is provided with appropriate information, its capacity to exercise its constitutional right to monitor the operations of the Executive will be restricted, and accountability and good governance in Victoria may be irreparably harmed.

The final theme of Ches Baragwanath's last report was a call to the Parliament to monitor the outcome of the new audit legislation and amend it if it proved unsatisfactory. He concluded, 'I remain pessimistic as to the likelihood of maintaining sufficient skilled

resources and being provided with adequate funding to discharge the important responsibilities envisaged by the new legislation.’

Shortly before Ches Baragwanath’s retirement, Jeff Kennett hosted a dinner in his honour. The Premier made a speech described as ‘warm and generous’, and the Auditor-General ‘responded in kind’. Neither man referred to the bitter struggle over the powers of the Auditor-General’s office that had dominated Victorian politics throughout 1997.¹⁷

In one of his final interviews as Auditor-General, Ches Baragwanath said, ‘As I leave this job, I am delighted I will vanish; I will become an anonymous pensioner, fronting up with my over-60s card. I am not looking forward to any place in history.’¹⁸ History, however, is not so easily diverted and the public will remember Ches Baragwanath as Victoria’s most outstanding Auditor-General. While it was his role in fighting for the powers and independence of the Auditor-General’s office that will attract the attention of future historians, he also contributed much to the development of public sector auditing, continuing the work of his predecessors in making the Victorian Auditor-General’s Office a world leader in the provision of public sector auditing services and in the quality of its reports to the Parliament and the public.

Part Two: The People Answer

One of the few proposals of the Maddock review supported by the Auditor-General was the recommendation that the Parliament should have a say in the selection of a new Auditor-General. However, this was one of the few proposals that the Premier rejected, with the result that the choice of successor to Ches Baragwanath was made by the Governor-in-Council, in other words, the government. However, in spite of fears aroused during the debates of 1997, the government did not appoint a ‘tame’ Auditor-General, but chose a highly-regarded career public sector auditor. At the time of his appointment, Wayne Cameron had served as Deputy Controller and Auditor-General of New Zealand for fourteen years and he was well known to the senior staff of the Victorian Auditor-General’s office through his involvement in organisations like the Australasian Council of Auditors-General.

WAYNE CAMERON

Born in Dunedin in 1948 Wayne Cameron joined the New Zealand Audit Office in 1966 as a cadet and studied part-time for his accounting degree while gaining practical auditing experience. There were twelve to fifteen people based in the Dunedin office and, like their Victorian counterparts, they spent much of their time travelling around doing country audits (although in Victoria it was customary for juniors not to begin country work until they had finished their accountancy qualifications).



Wayne Cameron, Auditor-General, 1999-

After completing his university degree in 1970, Wayne Cameron moved to Wellington where he was involved in the New Zealand Audit Office's first ventures into computer based auditing. In 1974 he returned to Dunedin as a district auditor responsible for the audit of public bodies in Otago, while maintaining a national responsibility for computer auditing. His success in these roles led to his appointment to one of the plum jobs in the New Zealand Audit Office, that of audit officer in London. Based at New Zealand House, he was responsible for the audits of all New Zealand embassies, high commissions, primary producer boards and other public bodies throughout the northern hemisphere. Like Ches Baragwanath in New York, Wayne Cameron found that audit work in an international setting exposed him to many innovative commercial issues.

In 1981 he returned to head office in Wellington and was put in charge of the audits of several major government departments and business enterprises. Over the next few years he audited eight of the ten biggest businesses in New Zealand, including the Post Office and the New Zealand Dairy Producers' Board. He was appointed deputy Auditor-General in 1985.

The following decade was a turbulent period for the New Zealand economy and the Audit Office as the country went further and faster down the road of deregulation and privatisation than any other nation. This posed many unprecedented problems for the Audit Office and Wayne Cameron recalls that it had to make big decisions, with little guidance from precedent or accounting standards, on issues such as access to auditors' working

papers for due diligence teams working on privatisations. As in Victoria, in the late 1980s most government trading bodies became involved in novel and sophisticated financing techniques, many of which were not adequately covered in the accounting standards, leading to interesting challenges for the auditors.

The New Zealand Audit Office was not exempt from the culture of radical change in the late 1980s and faced challenges not unlike those that later faced the Victorian Auditor-General's office. Among other things, there was a strong threat that it would lose its role in the audit of state-owned enterprises, as the Treasury argued that the Auditor-General should only do a compliance audit and the agencies should be free to engage a private sector auditor to do a commercial audit. Wayne Cameron recalls discussing the threats to the New Zealand Audit Office with Ches Baragwanath and telling him, 'It could happen to you.'

During 1997 both sides in the debate on the powers and independence of the Victorian Auditor-General referred frequently to the structure of auditing in New Zealand, with many misconceptions and illusions being displayed. Wayne Cameron was often approached to explain the situation in New Zealand, and, following Ches Baragwanath's resignation, this led to his being asked if he would let his name go forward for the Victorian position. As he had been deputy Auditor-General in New Zealand since 1985, he felt ready to take on the Victorian position.

He recalls that his first interview in Melbourne was with an interview panel chaired by Bill Scales, the head of the Department of Premier and Cabinet and then he had a discussion with Jeff Kennett and some senior public servants. The only comment Mr Kennett made on the work of the Auditor-General's office was that he disliked the 'in brief' information brochures distributed with reports, which he thought were just headline grabbers.

Wayne Cameron accepted the appointment as Auditor-General in July 1999 and arrived in Melbourne ready to begin work on 19 September 1999.

By 1999 the Kennett government believed that it had successfully 'toughed out' the controversy over its changes to the Auditor-General's office. While Roger Hallam admits that the new system had not been functioning long enough to see how it was working, he was confident that it would have worked well with one more term in government and would have ceased to be controversial. At the time of Wayne Cameron's appointment there appeared no doubt that the Coalition would have another term in office. It had recovered its standing in the opinion polls after the dip in popularity reflected in the 1997 by-elections at Gippsland West and Mitcham and seemed likely to maintain its large majority in the general election called for September 1999.

The Victorian election of 18 September 1999 was one of the most remarkable in Australian electoral history and it had an unprecedented impact on the history of the Auditor-General's office. Against all predictions, the election resulted in a hung Parliament with the

balance of power being held by three independents from rural electorates. While the Labor party made small gains in the metropolitan area, the greatest swing against the government was in conservative country electorates, most of which had been safe Liberal or National party seats for decades. Most analysts agreed that there were four main issues behind the swing against the government — the removal of common law rights for injured workers, rural discontent with the loss of basic services, the perceived arrogance of the Premier, and the attack on the powers of the Auditor-General.¹⁹

The sudden death on polling day of the MLA for Frankston East, Peter McLellan, meant that the final composition of the Parliament was not known until a supplementary election was held on 16 October.²⁰ In the intervening four weeks the political agenda was determined by the three independent MLAs, as it became clear that neither the Coalition nor Labor would be able to win government without their support. As a key to negotiations, the independents drew up a formal charter of demands, presented to the major parties on 27 September. The first demand was for the restoration of the powers of the Auditor-General and for his powers and independence to be enshrined in the Constitution. Intense negotiations based around the independents' charter continued until 19 October.

The restoration of the powers of the Auditor-General had been a central campaign policy of the Labor party, and it welcomed the independents' demands. What was surprising was the readiness of the Coalition to accept a reversal of its policy. The government had justified the reforms to the Auditor-General's office as being a matter of principle, but it quickly abandoned this 'principle' in its negotiations with the independents. Roger Hallam, who had borne the brunt of the defence of the government's position during the debates of 1997, recalled that Mr Kennett said of his policy on the Auditor-General, 'Fine, get rid of it ... The vision we have for the state is much more important. Let's not bleed over something that's not worthwhile.' Speaking to Tony Parkinson, Roger Hallam reflected that 'I was in awe that someone who had fought so long and so hard over a particular issue was prepared to jettison the whole thing.'²¹

Wayne Cameron had been appointed Auditor-General before the announcement of the election and he arrived in Melbourne to take up his position on the day after the election. He remembers asking his taxi driver, 'What's the result?' and the taxi driver threw up his arms and said it was totally confusing. Mr Cameron had an appointment with Jeff Kennett at 9.00 a.m. the next morning and the Premier kept the appointment in spite of the political turmoil following an indecisive election. The confusion following the election placed Wayne Cameron in an awkward situation as he had been appointed but could not be sworn in, so he had no power to act. Further, there was no certainty that a new administration would confirm his appointment. In the interim Graham Hamilton, Deputy Auditor-General since 1990, continued to act as Auditor-General. Throughout late September and early October, the new Auditor-General, the Auditor-General's office, and the Victorian public sector as a whole, remained in a state of limbo waiting for a resolution of the political impasse.

Following Labor's victory in the Frankston East by-election, the independents chose to give their support to the Labor party and on 19 October Steve Bracks succeeded Jeff Kennett

as Premier. In fulfilment of its campaign promises and the terms of the independents' charter, the government immediately began talks with Wayne Cameron and his senior staff on the legislation required to restore the powers and confirm the independence of the Auditor-General.

The Premier, Steve Bracks, introduced the new audit legislation to Parliament on 11 November 1999. The first legislation presented by the new government, it passed both houses without a division, receiving the Royal assent on 14 December and coming into effect on 1 January 2000. The Liberal party proposed numerous amendments, most of which met with the approval of the government and the Auditor-General, but it did not oppose the legislation. At the same time the government also passed amendments to the Constitution Act incorporating provisions relating to the appointment, independence and tenure of the Auditor-General. It is highly symbolic that the Parliament spoke in unison in restoring the powers and functions of the Auditor-General and giving constitutional protection to the Auditor-General's independence from the executive.

The key features of the new audit legislation were the restoration of the discretionary power of the Auditor-General to carry out audits in whatever manner he or she deemed appropriate, the strengthening of the relationship of the Auditor-General with the Parliament, and the enhancement of the accountability of the Auditor-General to the Parliament. With the passing of the legislation the Auditor-General again had the power to directly conduct audits, Audit Victoria ceased to operate and its audit responsibilities were re-integrated into the Auditor-General's office from 1 January 2000. The legislation widened the role of the Public Accounts and Estimates Committee, among other things, giving it a specific function in recommending appointments to the position of Auditor-General and commenting on the Auditor-General's work plan and budget for each year. The current chairman of the committee, Peter Loney MLA, believes the committee and the Auditor-General share the aim of 'producing a more effective, more efficient and more accountable Government in Victoria'.²² He sees the working relationship between the committee and the Auditor-General as being close and complementary, while preserving both real and perceived independence between the two bodies.

The new legislation set up a transparent accountability framework for the Auditor-General and his office. As the Premier put it in his second reading speech, 'It is important that the Auditor-General be accountable for the performance or exercise of the functions, duties and powers attached to the office, and for the public resources applied in the process.'²³ In April 2000 the Parliament passed further changes to the Audit Act, based on a Labor party election promise, giving the Auditor-General a role in reviewing the government's budget estimates to give an opinion on the adequacy of the processes used in their development. No other Auditor-General in the world has an equivalent role in the budget process.



Wayne Cameron with new graduate staff. Back row, L-R: Pearly Lim, John Buordolone, David Swiato, Wayne Cameron, Katryna Nguyen, Vivian To, Stuart Lording; front row, L-R: Thierry Rousselin, John Frintzilas, Stacey Stavropoulos, Andrew White, Cile Demir.

The process of reintegrating the Auditor-General's office and Audit Victoria was even more difficult than the process of separation had been. In a short time the two organisations had developed different cultures, which did not blend easily. The Auditor-General, Wayne Cameron, faced the task of rebuilding the office around a new organisational structure designed to meet the requirements of the new audit legislation and the challenge of maintaining and improving accountability in a rapidly changing public sector. As part of this, what was in effect a 'spill' of all positions took place, with a substantial number of senior positions being filled by people from outside either the Auditor-General's office or Audit Victoria, such as Greg Pound who came to the new position of Assistant Auditor-General, Accounting and Auditing Policy from the Australian Accounting Research Foundation and Pamela Williams from KPMG who became General Manager of performance audits. These appointments supplemented the core of senior staff such as Graham Hamilton, Deputy Auditor-General, Joe Manders and Russell Walker, both Assistant Auditors-General, and David Reid, General Manager of financial audits, who had been with the office throughout the tumultuous events of the 1990s and provided great knowledge and understanding of the continuing issues of public sector auditing. The process of rebuilding the office under Wayne Cameron's leadership took many months of intensive effort throughout 2000. In spite of the difficulties of this period, Stuart Alford's 2001

performance audit found that ‘the reintegration of Audit Victoria appears to have been handled effectively’. It was a remarkable achievement of the Auditor-General's office that it successfully maintained the flow of high-quality reports to the Parliament through all the disruptions, traumas and turmoil of the years 1997-2000.

In the 150 years since the appointment of Charles Ebden as Victoria's first Auditor-General the role and functions of the Auditor-General's office have changed greatly, but the central concern of the accountability of the executive to the Parliament has remained unchanged. Charles Ebden combined the accountability functions of an Auditor-General with the political responsibilities of a minister for finance — framing the budget and guiding it through the Legislative Council, while ensuring the government revenue was safely collected and expenditure properly accounted for. The extraordinary disruption and great increase in government revenue and expenditure caused by the gold rushes brought out the fundamental flaws in this system. The failure of the second Auditor-General, Hugh Childers, to develop a system of auditing suitable for the changed circumstances, played a large part in the crisis in public finances in 1853-54 and contributed to the unrest on the goldfields that led to the Eureka uprising.

The crisis of 1854 led to Victoria's first Audit Act in 1857. This act replaced the Auditor-General with three Commissioners of Audit, restricting their function to auditing the public accounts, and ending the political role of the early Auditors-General. The Commissioners of Audit believed that their ‘first and foremost duty, as the servants of parliament, is to ascertain that the appropriations are not deviated from’. To do this, the first three Commissioners of Audit developed a model of public service auditing that lasted for over a century, based on a one hundred per cent check of every transaction of every public body.

The model of transaction-based auditing was feasible with the small scale of government before the Second World War, but in the post-war years the rapid growth of Victoria's population and economy, combined with a greater role for government, made it increasingly difficult to carry out. This led to the development of new audit philosophies and methods, such as ‘systems- based’ and ‘risk-based’ auditing. Under the visionary leadership of Brian Waldron the Auditor-General's office began to look beyond the financial statements of government bodies to analyse the efficiency and effectiveness of the delivery of government services, with ‘value for money’ or performance audits.

For most of the 150 years of its existence the Auditor-General's office performed its functions out of the public eye. From the time the office ceased to be political in 1857 until after 1977 few Victorians would have been aware there was such an officer as an Auditor-General and even fewer would have been able to explain his role and functions. The Auditor-General was rarely mentioned in the press or in Parliament and his annual reports on the Treasurer's financial statements aroused little interest. Even John Norris's prophetic warnings on the state of public finances in the late 1920s failed to attract the attention they

deserved. However, during Brian Waldron's term as Auditor-General, and those of his successors, Richard Humphry and Ches Baragwanath, changes in audit methodology and the areas of government activity subject to audit, together with the presentation of audit reports in a relevant and accessible format, led to greatly increased interest from the press, the public and the opposition parties in the Parliament. The work of the Auditor-General expanded from a narrow focus on auditing the financial accounts of public bodies to an emphasis on the accountability of the executive to Parliament and the efficient and effective use of public resources. For the first time the Auditor-General's reports aroused political debate, public interest and newspaper headlines.

Both the Labor government of 1982-92 and the Coalition government of 1992-99 had difficulties accepting the scrutiny of the Auditor-General's office. As Ches Baragwanath observed, 'few governments are comfortable with having the full range of their activities subjected to independent analysis and evaluation', and from the late 1980s the office of the Auditor-General was subjected to unprecedented criticisms from governments, culminating in the controversial 'reforms' to the Audit Act introduced by the Kennett government in 1997, which were widely seen as an attempt to silence the Auditor-General.

In the Victorian State election of 1999, for the first time anywhere in the world, the role of the Auditor-General was a major election issue.²⁴ The election result showed strong public support for the restoration of the powers and independence of the Auditor-General. The Parliament reflected the strength of this support by voting unanimously to restore the powers and functions of the Auditor-General and to confirm his independence in the Constitution.



Auditor-General and staff of the reunited Victorian Auditor-General's Office, 2001.

In March 1865 the *Argus* described the Commissioners of Audit as ‘the watchmen stationed upon the tower’, observing that ‘while they are faithful, the public may rest satisfied that nothing serious can take place in the management of the public accounts without a warning cry being raised’.²⁵ Although the role has expanded with the growth in the size and complexity of government, this image is still appropriate today. The Auditor-General has a pivotal role in the system of public accountability, monitoring and reporting on the operations of the executive on behalf of the Parliament. The current Auditor-General, Wayne Cameron, sees the primary role of his office as ‘providing assurance to the Parliament and the community about the resource management and financial integrity of public sector activities’.²⁶ The language may have changed, but the basic function of the office remains what it has been for 150 years, summarised in the office’s motto, ‘auditing in the public interest’.

¹ Victorian Auditor-General's Office, *Annual Report*, 1998-99, p. 4.

² Ches Baragwanath to Chris Strong MLC, 26 November 1997.

³ Rodney Maddock, ‘The Victorian Audit Act Review, executive summary’, at <http://www.ipa.org.au/pubs/econunitdocs/Maddockbase.html>

⁴ Stuart Alford, *Performance audit of the Victorian Auditor-General's Office*, report presented to Parliament, September 1998, p. 2.

⁵ *Performance audit of the Victorian Auditor-General's Office*, p.18.

⁶ *Performance audit of the Victorian Auditor-General's Office*, pp. 31-2.

⁷ Memorandum of advice for the Victorian Government Solicitor, 13 January 1998, in VAGO archives.

⁸ Advice from Blake Dawson Waldron, 15 March 1999, in Victorian VAGO archives.

⁹ Memorandum of advice for the Victorian Government Solicitor, 13 January 1998, in VAGO archives.

¹⁰ Rodney Maddock, ‘The Victorian Audit Act Review, executive summary’, at <http://www.ipa.org.au/pubs/econunitdocs/Maddockbase.html>

¹¹ For example, Victorian Auditor-General's Office, *Annual Report*, 1993, p. 23

¹² The expense and duplication involved in the new system was analysed in Victorian Auditor-General's Office, ‘Assessment of budgetary requirements for 1999-2000 under new contestability framework’, February 1999, copy in VAGO archives.

¹³ The reasons for the increased costs and duplications of the new audit system are set out in greater detail in the ‘Assessment of budgetary requirements for 1999-2000 under new contestability framework’.

¹⁴ For example, the *Australian* on 29 October 1997 quoted Ches Baragwanath as saying, ‘Every morning when I get to work and look at my in-tray, I think it would be great to be out on the golf course or the tennis court or travelling around.’

¹⁵ *Herald-Sun*, 3 February 1999.

¹⁶ *Australian*, 27 July 1999.

¹⁷ *Australian*, 27 July 1999.

¹⁸ *Age*, 27 July 1999.

¹⁹ Tony Parkinson gives an excellent analysis of the 1999 election campaign and subsequent events in *Jeff: the Rise and Fall of a Political Phenomenon*, pp. 370-421.

²⁰ Peter McLellan was standing as an independent after leaving the Liberal party in protest against government policies including the changes to the Auditor-General's office.

²¹ Parkinson, *Jeff: a Political Phenomenon*, pp. 425-6.

²² 'Auditing under the spotlight', a presentation by Peter Loney to the Auditor-General's office, September 2001.

²³ *P.D.*, vol. 446, p. 365, 11 November 1999.

²⁴ The only other occasion when public sector auditing became a significant political issue was in California in the early 1990s when the passing of Proposition 140 forced a dramatic cut in public spending leading to the closure of the state's Auditor-General's office. However, this was an accidental by-product of a populist attack on 'big government' rather than an attack on the Auditor-General by the government. In the California case the government and the legislature acted promptly to restore the state's audit function. See Dale R. Geiger and Kurt Sjoberg, 'Creative Destruction: the closing and reopening of the California state audit office', in *The Government Accountants Journal*, vol. 43, no. 4, 1995.

²⁵ *Argus*, 8 March 1865.

²⁶ Victorian Auditor-General's Office, *Annual Report, 1999-2000*, p. 4.

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