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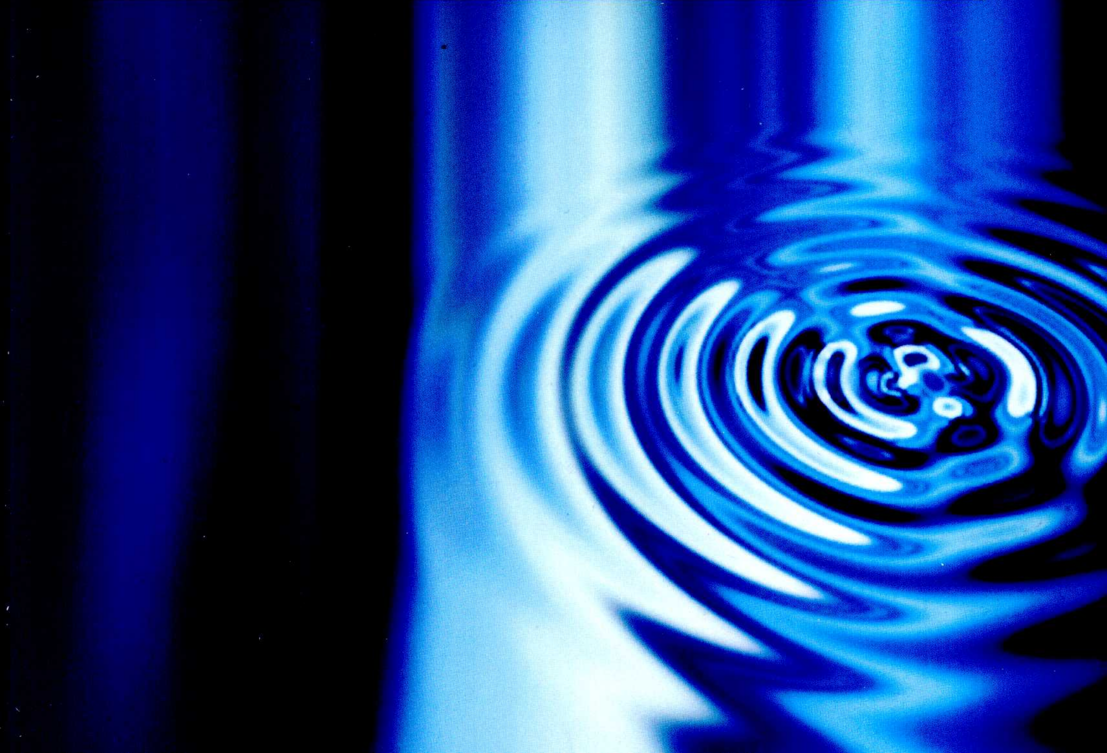
PERFORMANCE AUDITING

Contributing to Accountability in Democratic Government



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Contributors

Elena Bechberger is Head of Methods and Innovation at the National Audit Office (NAO) in London, UK. She studied public policy at the University of Konstanz (Germany) and holds a PhD in Government from the London School of Economics and Political Science (LSE). Previously she worked for the German Ministry of Economics and as an evaluator of European Commission projects, before joining the NAO as Research Fellow in 2006. She conducts research and training on qualitative and quantitative methods of programme evaluation, as well as on fiscal and social policy.

Richard Boyle is Head of Research, Publications and Corporate Relations with the Institute of Public Administration in Dublin, Ireland. He has worked with the IPA since 1986, having previously worked on policy and evaluation issues in local government in the UK. His research interests focus on public service modernization, managing for results in the public sector, and developing and implementing effective performance management and evaluation systems. He has researched and written extensively on public service reform, performance measurement and evaluation. He has worked widely with Irish central and local government, the OECD and the World Bank. He was a member of the Board of the European Evaluation Society from 2002 to 2005 and is chair of the Irish Evaluation Network.

Mark Funkhouser is currently the Mayor of Kansas City, Missouri, USA. He holds a BA in Political Science, an MSW, an MBA, and a PhD in Public Administration and Sociology. He authored the book *Honest, Competent Government: The Promise of Performance Auditing* (2009), which shows how auditing can increase citizens' trust in government. Mark has also authored numerous articles and essays that have been published in journals such as *Public Administration Review*, and in books including *Public Administration: Cases in Managerial Role-Playing*. In addition, Mark was the editor for *Local Government Auditing Quarterly* for 9 years. Throughout his 40-year career he has been a vocational rehabilitation counselor, an assistant professor, and a city auditor. In 2003 Mark was named one of *Governing Magazine*'s 'Public Officials of the Year'.

Jan-Eric Furubo works at the Swedish National Audit Office, Stockholm, where he is responsible for focusing the long-term development of performance audit. He has published widely on evaluation methodology, the role of evaluation in democratic decision-making processes and its relation to budgeting and auditing. He co-edited the *International Atlas of Evaluation* (2002) and *Evaluation – Seeking Truth or Power?* (2010). He contributed to *Handbook of Public Policy Analysis – Theory, Politics and Methods* (2007), was co-author of an article about Evaluation Systems published in *Evaluation* (2008) and contributed to *Evaluer les politiques publiques pour améliorer l'action publique, Une perspective internationale* (2009).

Justin Keen was the first NAO Fellow in Audit and Evaluation, 1996–98. Following his time at the NAO he worked at the King's Fund, a London-based charity, and at University College London, UK, before moving to his present post as Professor of Health Politics at the University of Leeds in 2001. He has undertaken a number of evaluations of health policies over the last 20 years, and has a particular interest in the development of more robust methods for policy analysis.

Frans L. Leeuw is the Director of the Justice Research, Statistics and Information Centre, affiliated to the Dutch Ministry of Security and Justice, and is Professor of Law, Public Policy and Social Science Research at Maastricht University, the Netherlands. He is a sociologist (PhD Leyden University, 1983). Earlier he was Professor of Evaluation Studies at Utrecht University, Director of the Performance Auditing and Evaluation Department of the Dutch National Audit Office, Dean of the Humanities and Social Sciences Faculty of the Netherlands Open University, Chief Inspector for Higher Education in the Netherlands and Associate Professor of Policy Studies at Leyden University. He was one of the founders of the European Evaluation Society and past president of this body. Currently, he is President of the Dutch Evaluation Society. He is Faculty Member of the IPDET program. He has worked for the World Bank, the EU and many agencies and ministries of the Dutch government.

Tom Ling is Director for Evaluation and Performance Audit at RAND Europe, in Cambridge, UK. He studied Social and Political Sciences at Cambridge University, UK, and completed a PhD in Government at Essex University, UK. He joined RAND following 4 years as Research Fellow at the National Audit Office in the UK. He has worked on evaluation projects with the European Commission, UK Government departments, the National Audit Office, the Health Foundation and many others. He has published widely on evaluation, accountability and related topics. He recently completed a Performance Audit handbook for RAND Europe, and co-edited *The Evidence Book*, a critical examination of the use of evidence in public policy and service delivery (published by Transaction in 2010). He is Professor of Public Policy (Emeritus) at Anglia Ruskin University, UK, and honorary senior visiting research fellow, University of Cambridge, UK.

Jeremy Lonsdale is Director-General, Value for Money Audit at the National Audit Office (NAO) in London, UK. He studied history at King's College, University of London, UK, is a qualified accountant and has a PhD from Brunel University, UK, supported by the NAO in 2000. He was co-author of *Performance or Compliance? Performance Audit and Public Management in Five Countries* (OUP, 1999) and co-editor of *Making Accountability Work: Dilemmas for Evaluation and for Audit* (Transaction, 2007). His most recent publication was 'The Audit Society: Helping to Develop or Undermine Trust in Government' (written with Irvine Lapsley) in *Administrative Justice in Context* (Hart, 2010), edited by Michael Adler.

Vital Put has worked – from 1998 onwards – at the Belgian Court of Audit, Brussels, first as a performance auditor, later as a performance audit supervisor. In addition, since 2003, he has worked as a researcher at the Public Management Institute of the University of Leuven. He previously worked at several Belgian Ministries (Justice, Labour, and Social Affairs). Vital possesses a master degree in public management and in criminology and a PhD in social sciences. He has published several articles and chapters on performance auditing.

Alex Scharaschkin is Director for Consumers and Competition Value-for-Money studies at the National Audit Office in London, UK. He currently leads the NAO's value-for-money work on economic regulation and the use of market mechanisms in public service delivery, and has previously led value-for-money studies in the health area. He is interested in the use of statistical and economic methods in value-for-money assessment, and in the nature of evidential support for conclusions on value-for-money more generally. He joined the NAO in 2000, having previously held posts in the Civil Service and the education sector, and at the Universities of London and Melbourne. His academic background is in mathematics, but he has also carried out and published research in applied psychological and educational measurement.

Rudi Turksema is a Performance Audit Expert at the Netherlands Court of Audit, The Hague. His work focuses on the quality and effectiveness of performance audits. This also involves the quality of performance information, evaluation studies, and results-based budgeting. Before coming to the Netherlands Court of Audit, he received his PhD in Sociology (on a study into the effect of government policy on day-care supply) from Utrecht University, the Netherlands.

Peter van der Knaap is Performance Audit Director with the Netherlands Court of Audit in The Hague. Prior to this, he was Head of Policy Evaluation at the Ministry of Finance in The Hague, where the introduction of the performance-oriented budgeting system and corresponding evaluation framework were his main responsibilities. Before that he worked at the Inspectorate of the Budget and was at Erasmus University, Rotterdam, where he earned his PhD in 1997. He publishes and lectures on policy audit and evaluation, performance-based budgeting and policy-oriented learning.

Eddy Van Loocke entered the Belgian Court of Audit in Brussels as a junior auditor in 1985. When the Court was charged with the legal mandate to carry out performance audits in 1998 he focused his activities on this new mandate. He has been an audit manager since 2004 and has conducted many performance audits and participated frequently in peer reviews and audit supervising committees. He coaches audit teams in the field of planning and conducting performance audits. He is also a member of the coordination committee of the Flemish Evaluation Society.

Katrien Weets has been working as a researcher at the Public Management Institute of the Katholieke Universiteit Leuven in Belgium since 2007. She holds a master's degree in political sciences (public management). As a researcher associated with the Policy Research Centre – Governmental organization in Flanders, she conducts both fundamental and practice-oriented research. Her main research interests include public performance management, public budgeting and public auditing. Currently, Katrien is working on a PhD on municipal planning and budgeting in Flanders.

Peter Wilkins is the Deputy Ombudsman of Western Australia and was for several years Assistant Auditor General, Performance Review for the Western Australian Auditor General. He has extensive practical and research experience regarding public sector performance review, reporting and accountability. He liaises regularly with ombudsmen and audit institutions in Australasia, North America and Europe and has contributed to national and international initiatives. He also holds the positions of Adjunct Professor in the School of Accounting and The John Curtin Institute of Public Policy at Curtin University of Technology, Western

Australia, Associate of the Public Sector Governance and Accountability Research Centre at La Trobe University, Victoria, Australia and is a member of the International Evaluation Research Group.

Foreword

Paul L. Posner

Accountability has always been central to the practice of public administration in any democratic system. As the principal mechanisms through which the people control their leaders, the field of public administration has rightly focused considerable attention on the concept of accountability.

In many OECD nations, the term accountability has grown to an iconic status, with a symbolic imagery that permits this chameleon-like term to be attached to a wide range of causes and agendas.[1] Rising expectations for public provisions of services have been accompanied by growing pressures for accountability on the part of the proliferating list of stakeholders and participants in the policymaking process. Public organizations are condemned to live in a world where the stakes associated with public programs have grown, but where there is little agreement among the many players on goals, expectations or standards.

The rather straightforward, simple world of early public administration has been replaced by a world where public leaders and administrators must attempt to meet conflicting accountability expectations. Indeed, modern treatments consider accountability to be a multi-faceted concept, encompassing separate and often competing accountabilities to internal and external stakeholders. One classic treatment suggests that most government agencies are simultaneously beholden to four systems of accountability: (1) bureaucratic, (2) legal, (3) professional and (4) political. It goes without saying that each of these perspectives can and does conflict, leaving public managers with the difficult job of balancing these differing obligations.[2] Most public organizations are, in effect, agents for multiple principals both within and outside their boundaries. Some have gone so far to suggest that most public organizations suffer from Multiple Accountabilities Disorder![3]

Most advanced nations have responded to accountability imperatives by articulating institutional reforms focused on the performance and results of government operations and programs. Performance measurement and policy analysis have become mainstreamed into management and budgeting over the past several decades. Many policy advocates and analytic organizations outside of government work tirelessly to transmit analysis and information to policymakers, either putting new issues on the table or providing oversight and insight on existing programs or operations.

However, it is the transformation of audit institutions that has been most notable. National audit offices have expanded their remit beyond traditional financial and compliance auditing to focus on performance auditing and assessments. Performance auditing has become a central feature of most advanced nations' national audit offices, and this has often been replicated, in the United States, in inspectors' general offices located inside agencies. Indeed, some offices have been pushed into ever more expansive policy roles, becoming authenticators of new problems pushing their way onto policy agendas and adjudicators of budget forecasts in addition to their traditional program review responsibilities.

I witnessed these trends from my position at the United States Government Accountability Office (GAO), where I served for many years as a managing director responsible for GAO's federal budgeting work. An audit agency that began in the 1920s, with the responsibility of reviewing all financial transactions by federal agencies with thousands of financial auditors, it has become a much smaller agency with a multi-disciplinary workforce devoted to performance and program assessments. The inspectors general in federal agencies, as well as state and local auditors, have followed as political leaders and restive publics place more demanding and complex tasks on government than ever before. Federal auditors are now asked by the Congress and the President to go beyond even post-performance audits to become more proactive in working with managers to mitigate and prevent potential waste and fraud when programs are started.

As they have expanded their roles to performance, auditors have succeeded in achieving major influence in forming the policy agenda and in formulating public policy as well. In the United States, GAO input was critical in bringing about reforms in policy areas ranging from healthcare reimbursement formulas, grant allocations, and reforms of federal deposit and pension insurance programs. In one prominent case in Canada, the Auditor General's reports on the Martin government's pattern of influence peddling was widely viewed as the most important event triggering the government's downfall.

However, auditors achieve their influence in highly contestable systems, rife with competing values. Far from hegemonic influence, these systems appear to veer from accountability deficits to accountability excesses, depending on such variables as the strength of accountability offices and the receptivity of the broader political system. Auditors often have sufficient credibility to make powerful claims on the agenda, often prompting government officials to modify their agendas to address the issues raised in reports. In some parliamentary systems, the auditor general is provided with formal opportunities to testify before oversight committees chaired by the minority party. But other actors are competing for influence as well, including established interest groups and bureaucratic agencies, who can prove to be formidable contestants in protecting their programs and claims.

We know surprisingly little about what conditions aid or hinder the influence of audit offices in the policy process. One obvious one is the orientation and capacity of the audit office itself. Specific features of accountability institutions themselves limit their role in policymaking. For example, traditionally, many audit agencies have not engaged in policy advocacy. They have been closed organizations concerned with their independence and reluctant to work with others. They have not, therefore, looked to form coalitions. Such closed organizations have kept their draft reports to themselves for fear of leaks and have privileged access to information that they cannot share. And they generally chose not to speak publicly on issues or to get involved with others. Many auditing organizations rotate their staff when they become too familiar with the programs they are reviewing, which preserves independence, but often at the expense of expertise. This institutional insulation and isolation has the price of diminishing the roles such institutions can play in the issue networks that are responsible for policy development and change in most systems.[4]

Those audit institutions that are more fully engaged with policymakers face institutional risks of their own. Most of the work done by the GAO is at the request of members of Congress from both parties. The agency must delicately steer between responding to these legitimate information needs to set their research agenda while sustaining their independence in developing findings and reports. The broader engagement of these institutions with media, universities and other actors also can sustain their reputations which can promote support and limit interference. However, the involvement of accountability professions in reviewing program results and effectiveness carries obvious political risks for audit institutions – many have charters that limit their coverage of these issues and constrain them from making recommendations on policy and program design issues.

Notwithstanding the greater centrality of auditors in public management, public managers and policymakers often have little connection or dialogue with these independent officials who are the institutional champions of accountability. Managers on the front lines of program performance often have no familiarity with audit standards, materiality criteria or any of the other tools that are so central to the job of the performance auditor. The vaunted independence that is so essential to the credibility of auditors also has served to wall off these accountability officials from their managerial counterparts in the agencies of government.

Several years ago at an international meeting, I succeeded in bringing together the senior budget directors of several major OECD nations with the heads of the national audit offices of those nations. What was remarkable was how little they knew about each other; indeed one budget director remarked that he came to the meeting to finally get a chance to get to know how this strange and mysterious institution, which had become so important to governance in his and other nations, did its work.

The separation between managers and auditors in the world of practice has its parallel in the academic community. While accountability concepts have been a foundation of public administration over the years, there has been precious little focus on audit institutions. For instance, the *Public Administration Review*, among the premier journals on the field in the United States and the world, has only one article with audit institutions in its title in the past ten years, and only six articles with some coverage of those institutions.[5] One would have to go to accounting and auditing journals to find research on the role and management of audit institutions in public administration.

This book is a much welcome tonic for public administration. It is one of the few books that explicitly focus on how audit institutions carry out their performance auditing responsibilities. While auditors will likely read it, the authors have geared the book to a broader readership, including public managers who are often the subject of performance audits.

It is also notable that the book has contributions from both practitioners as well as academics who cover audit institutions. This is increasingly rare but extraordinarily valuable. Many of the authors are, in fact, 'pracademics' who have one foot in public office and one in academia teaching or doing research. The giants who founded our field of public administration in the United States – Woodrow Wilson, Luther Gulick, Charles Merriam – were themselves all pracademics who enriched their theory with illustrious service in government, and vice versa.[6] Readers will benefit from the authors' mix of first hand experience and reflective scholarship – both essential for a deep and rich understanding of developments in our field.

The chapters in the book are notable for their coverage of important issues. There are chapters covering issues ranging from organizational strategy, audit tools and methods, and standards. These chapters offer a view into the operations of audits that many public managers know precious little about.

The chapters on the impacts of performance audits are very revealing.

They help us gain a better understanding about the roles that performance audits play in the broader policy process. Auditors themselves need more sophisticated analysis of how they achieve the impacts on policymaking and this book will provide a rich source to help them learn about the intended and unintended effects of their work. The comparative focus of the book is also a contribution, with chapters including material on audit bodies in Belgium, the Netherlands, the United Kingdom, Australia and the United States, among others.

My hope is that this book will help trigger an expanded dialogue between auditors, public managers and students of public administration. While audit reports rightly criticize the stovepiping of government agencies and programs, our own field has erected its own professional stovepipes that have inhibited networking and valuable collaborations across the differing disciplines that are engaged in public management. Constructive engagement can promote the objectives of both managers and auditors without jeopardizing the independence that is so essential to the credibility of audit institutions. As a firm believer in the important role of ideas in public policy, I have faith that books like this one can help to bring about greater integration of theory and practice of public administration in the future.

Paul Posner is professor and director of the Masters in Public Administration program at George Mason University. He was previously Director of the Federal Budget and Intergovernmental Relations at the Government Accountability Office in Washington DC. He has a PhD from Columbia University.

NOTES

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2. Barbara S. Romzek and Melvin J. Dubnick (1987), 'Accountability in the Public Sector: Lessons from the Challenger Tragedy', in *Public Administration Review* 47 (May/June).
3. Thomas Schillemans and Mark Bovens (2008), 'The Challenge of Multiple Accountability: An Empirical Analysis', paper prepared for Kettering Symposium on Public Accountability, Dayton, Ohio, May 22–4.
4. Rob Schwartz and Paul L. Posner (2008), 'Accountability Institutions and Information in the Policy Process', paper prepared for Kettering Symposium on Public Accountability, Dayton, Ohio, May 22–4.
5. Search by the author in Blackwell Synergy index of *Public Administration Review*, 2000–10.
6. Paul L. Posner (2009), 'The Pracademic: An Agenda For Re-engaging Practitioners and Academics', *Journal of Public Budgeting and Finance* 29:1 (March).

Contents

1. Introduction

Jeremy Lonsdale

> Performance audit involves assessing whether government policies, programs and institutions are well managed and being run economically, efficiently and effectively. This is a task of potentially great significance – at a practical level for citizens, and at a more abstract level for the health and vitality of democratic governance. (Pollitt et al., 1999)

> The post-bubble era is going to be impatient of extravagance. It will be flintier, value-conscious and much less forgiving of waste. It will demand that the public sector justifies its existence to those who pay its bills . . . Simmering jealousy will boil up into hot anger if the public sector isn't delivering value for money. (Andrew Rawnsley, *The Observer* newspaper column (UK), 2009)

The first decade of the twenty-first century will be remembered for the scale of the economic crisis experienced across the world, and the lives of individuals in the current decade will be shaped by how governments respond to the fundamental changes that have occurred. Total capitalisation of the world's stock markets was almost halved in 2008, representing a loss of nearly US $30 trillion of wealth. Industrial production in the first quarter of 2009 fell 62 per cent in Japan and 42 per cent in Germany.

The global crisis forced governments to act swiftly under considerable pressure in order to tackle a range of political and economic problems affecting both the private and the public sectors. These actions included immediate intervention in the financial sector, massive budgetary commitment to extra-ordinary public spending, quick expansion of public sector capacity to deal with the effects of the crisis such as a rise in unemployment, and reprioritisation of existing spending programmes to provide more substantial economic effect from government activity. The most substantial activity has been seen in the United States, where an estimated $800 billion stimulus package under The American Recovery and Reinvestment Act has been put in place, but similar measures have been seen in many other countries.

The scale and impact of the crisis have also required governments to focus their attention on potential wasteful spending in the public sector, and public bodies have come under considerable pressure. This pressure is to be seen in the form of:

- significant reductions in public employment;
- major cutbacks in programme spending, especially in areas of discretionary activity;
- repeated efficiency savings programmes;
- efforts to reduce regulation within government; and
- increased attention to securing the benefits from ICT initiatives, process re-engineering, mergers of bodies, shared services and market-type mechanisms.

Deficit reduction plans, prompted by the economic crisis, have provided governments with a new opportunity and a pressing need to focus on securing value for money from public spending. In the United Kingdom, the 2009 Labour Budget promised austerity in the public sector until at least 2017–18, and the Conservative-Liberal Democrat government, elected in May 2010, made immediate announcements of cuts in public spending as part of efforts to reduce the £156 billion budget deficit. Cost-cutting and efficiency programmes have been introduced by government bodies across the world, along with efforts to reduce procurement costs and increase public sector productivity. Some bodies have reduced the range of services they offer or changed eligibility rules. At the time of writing, it was still not clear whether efforts to reduce spending will lead to a 'slash and burn' approach in some countries, or whether cost reductions will be more carefully considered.

Efforts to increase the performance of the public sector are likely to be more dramatic in some countries than others. In the UK and US, for example, the large bank bailouts are seen as necessitating radical changes. In other countries less affected by the banking crisis, the public sectors are not expected to face such significant challenges. Nevertheless, declining tax revenues, the cost of renewing infrastructure, unfunded public-sector pensions and the implications of an ageing population – all issues which, along with the environment, were facing governments before the economic crisis – are all driving governments to turn their attention to the ways in which public services are delivered.

The events of 2008–10 have increased enormously the significance of concerns about public expenditure and value for money, but long before the current crisis, governments around the world had been developing measures to improve the management of the public sector and secure savings and improvements in performance. Talbot (2010) notes that 'Performance measurement and management of public services has been on the rise in many countries in recent years.' Bouckaert and Halligan (2008) describe performance as one of the two big questions in public management of the last 15 years (the other being the role of markets).