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:
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- 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).
Steps have also been taken to improve the assessment of public sector performance and extend the information available to the public in order, it has been argued, to enhance accountability and transparency. In 1993, in the United States, the Government Performance and Results Act was introduced, ‘designed to improve the effectiveness of federal programs and citizen satisfaction through the systematic measurement and reporting of performance measures that are aligned to agencies’ goals’ (De Lancer Julnes, 2006). In 2000, the Canadian government introduced Results for Canadians, a management framework covering results, spending and value-for-money issues. Around the same time, the Swedish government introduced a range of initiatives on performance budgeting, and in Australia a performance management framework was put in place in 2001. In the UK, there have been repeated efforts to improve efficiency. The Gershon Review was carried out in 2004 which identified scope for £20 billion worth of savings. The Comprehensive Spending Review in 2007 referred to the government’s ‘far-reaching value-for-money programme . . . releasing the resources needed to sustain the pace of public service improvement and meet the global challenges of the decades ahead’ (Treasury, 2007). In 2008, the government launched what it described as two value-for-money programmes – an Operational Efficiency programme and the Public Value Programme. In the 2009 Budget, the UK government spoke of the ‘constant effort to improve value for money’ and issued a Value for Money Update to outline what departments had achieved (Treasury, 2009).

This short summary of recent events highlights three key aspects of government which run through this book. These are concerns for:

- the value to be achieved from public expenditure;
- the mechanisms for accountability for public sector performance in the face of changing forms of governance; and
- the credibility and trustworthiness of government and the information provided by it.

The events of the last few years have increased the importance of these issues, rather than introduced them afresh to political debate. But these developments – and their ongoing consequences – have only added to the significance of all forms of performance management, and encouraged debate as to whether the actions they generate to improve public sector performance are up to the job. Looking for an answer to that question as it relates to one form of performance management – performance audit – is the justification behind this book.
PERFORMANCE AUDIT AND THE PURSUIT OF ENHANCED PUBLIC SECTOR PERFORMANCE

The array of performance management and measurement techniques introduced in the last 30 years have included – in no particular order – contractual arrangements, targets, inspection regimes, customer charters, reorganisations, the creation of ‘arm’s length bodies’, performance-related pay, purchaser–provider splits, league tables, compulsory competitive tendering, and forms of consumer choice. All these measures have required the collection of data, in often intrusive ways. Alongside these developments has been the expansion of different forms of audit (Power, 1997, Lapsley and Lonsdale, 2010). Audit in its many forms has been seen by governments as an answer to many problems, inevitably those associated with the use of public money, but also increasingly the wider monitoring of public sector performance. Traditional audit – the scrutiny of financial statements – has continued and developed in complexity, but has been joined by other forms, including environmental audit, management audit, forensic audit, data audit, intellectual property audit, medical audit, and what is widely known as performance audit, the topic of this book.

Performance audit has developed over several decades in many parts of the world with the aim of assessing aspects of how government organisations have performed and have used the resources provided to them. It grew initially in Europe, Australasia and North America during the 1970s and 1980s, taking root in many democracies – at national level within Supreme (or state) Audit Institutions (SAIs), and variously at state, provincial, regional, local and municipal levels – as auditors have widened their perspective, from whether the money has been spent as intended, to broader considerations of whether it has been spent efficiently and, even more challengingly, whether it has been used to good effect (see Table 1.1).

In Sweden, for example, performance auditing became the major element of the work of the former national audit office, the Riksrörelseägare (RRV), when it was restructured in 1967 and financial audit was removed from its remit. Thereafter, the RRV was at the forefront of performance audit developments internationally in the 1980s and 1990s. In Finland, dissatisfaction with solely legalistic audit grew in the 1970s and 1980s and performance audit was established as a separate form of audit in 1988. In the UK, ‘value for money’ audit was given legal standing in 1983 following several decades of examinations of expenditure and revenue generated by the audits of the annual accounts. By the end of the 1990s the NAO was publishing 50 major performance audit reports a year (Pollitt et al., 1999).
Table 1.1  Performance audit mandates in selected countries

<table>
<thead>
<tr>
<th>Year</th>
<th>Country</th>
<th>Legislation</th>
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<tbody>
<tr>
<td>1921</td>
<td>United States of America</td>
<td>General Accounting Office established with broad mandate to investigate ‘all matters relating to the receipt, disbursement, and application of public funds’ and ‘to make recommendations looking to greater economy and efficiency in public expenditures’. Subsequent acts have clarified and expanded the mandate.</td>
</tr>
<tr>
<td>1948</td>
<td>Austria</td>
<td>Federal Law on the Rechnungshof enabled it to examine the economy, efficiency and effectiveness of the operations of corporate public bodies, local authorities and provincial governments, and the economy and efficiency of state economic enterprises.</td>
</tr>
<tr>
<td>1967</td>
<td>France</td>
<td>Legislation provided for the SAI, the Cour des Comptes, to examine aspects of the economy, efficiency and effectiveness of public money.</td>
</tr>
<tr>
<td>1976</td>
<td>Netherlands</td>
<td>Government Accounts Act broadened out remit to performance audits to determine performance of government, organisation and management services. It was extended in 1992 to allow for examination of policy.</td>
</tr>
<tr>
<td>1977</td>
<td>Canada</td>
<td>The Auditor General Act 1977 provides the original legal basis for the Auditor General to carry out performance audits. It was amended in 1995 to include responsibilities related to environmental matters.</td>
</tr>
<tr>
<td>1983</td>
<td>United Kingdom</td>
<td>National Audit Act formalised the NAO’s ability to examine the economy, efficiency and effectiveness of government spending.</td>
</tr>
<tr>
<td>1993</td>
<td>Ireland</td>
<td>The Comptroller and Auditor General (Amendment) Act allows the C&amp;AG to carry out examinations of the extent to which acquisition, use and disposal of resources have been carried out economically and efficiently, but not directly look at effectiveness.</td>
</tr>
<tr>
<td>1997</td>
<td>Australia</td>
<td>Auditor General Act authorises the Auditor General to conduct a performance audit of an entity, a Commonwealth authority or company, other than a Government Business Enterprise.</td>
</tr>
<tr>
<td>1998</td>
<td>Belgium</td>
<td>Provides for the audit of the sound use of public funds and to examine economy, efficiency and effectiveness.</td>
</tr>
</tbody>
</table>
Performance audit evolved with the times, taking on new forms. In the Dutch audit office, the Algemene Rekenkamer, for example, audit units were set up in the 1960s to investigate the efficiency of government organisations and early computer systems. In 1976 the Government Accounts Act broadened the remit to carrying out performance audits to determine the performance of management, organisation and government services. In the 1980s different types of performance audit were developed, many focusing on providing assurance that plans were being implemented, and others taking the form of benchmarking to compare ministries. In 1992, the Government Accounts Act was amended to allow the Rekenkamer to examine policy and in the 1990s it examined the consequences of policy on a limited scale. This grew after 2001 into a statutory task to examine the effectiveness and efficiency of policy. The focus has been on whether the policy has the desired effect, focusing on social problems, and trying to identify whether there is a gap between policy and implementation (Algemene Rekenkamer, 1989, 2010).

More recently we have seen the development of performance audit, for example, in eastern Europe, Asia (for example, in Japan and South Korea) and Latin America. In Africa, performance audit has been undertaken in Botswana for nearly 20 years and was first carried out by the Auditor General of South Africa in 1986. AFROSAI-E, the African Organisation of English Speaking SAIs, now describes performance audit as ‘one of its six imperatives’ (AFROSAI, 2009) and argues that to comply with international standards and recommendations it needs to increase ten-fold the number of performance auditors (currently, 300). In 2009, a competition for the best performance audit from an African SAI was won by the Ghanian Audit Office. Some of this work has been taken forward with western European SAI assistance – for example, training courses provided by the Swedish NAO since the 1980s, or capacity building and input into studies as provided by the Canadian Office of the Auditor General and the UK NAO to the Chamber of Accounts in the Russian Federation. It is also supported by international bodies such as the World Bank, or the Asian Development Bank, for example, through its work to enhance performance audit capacity in China.

**Definitions and Characteristics**

The focus of this book is primarily on SAIs working at national level and so to seek a definition of performance audit it is appropriate to start with INTOSAI, the ‘umbrella’ organisation that acts as a forum for the SAIs around the world. The INTOSAI Auditing Standards (INTOSAI, 2004) state:
Performance auditing is concerned with the audit of economy, efficiency and effectiveness and embraces:
(a) audit of the economy of administrative activities in accordance with sound administrative principles and practices, and management policies;
(b) audit of the efficiency of utilisation of human, financial and other resources, including examination of information systems, performance measures and monitoring arrangements, and procedures followed by audited entities for remedying identified deficiencies; and
(c) audit of the effectiveness of performance in relation to achievement of the objectives of the audited entity, and audit of the actual impact of activities compared with the intend impact.

Within this broad definition, performance audit has developed different forms. Some writers have distinguished between substantive performance audits, and systems and procedures performance audit (Shand and Anand, 1996). The former tend to consider efficiency and effectiveness issues, whilst the latter focus on the systems and procedures used to deliver and evaluate programmes. Another analysis (Bowerman, 1996) distinguished between reviews of management systems, arrangements and procedures, the performance procedure audit, policy audit, audit of management representations of performance, comparative performance audit, and quality audit. More recently, Grönlund et al. (2009) in a review of reports by the Swedish NAO (SNAO or Riksrevisionen) published between 2003 and 2008, identified eight types of performance audits – covering economy, efficiency and effectiveness, systems, administration, goal-related, policy and empirically grounded audits.

Different interpretations have led to work with different focus. For example, in two Australian state audit bodies – Western Australia and Tasmania – performance auditing encompasses ‘the range of audit and review activities from annual attest work on financial statements and performance indicators through to the preparation of direct reports on performance examinations’ (Nichol, 2007). In Canada, the Office of the Auditor General states that its performance audits ‘examine the government’s management practices, controls and reporting systems with a focus on results’ (OAG, 2010). In the United Kingdom, the National Audit Office’s form of performance audit is designed to gather evidence so as to conclude on whether ‘value for money’ has been achieved, a term it defines as ‘the optimal use of resources to achieve the intended outcomes.’

SAIs have developed their performance audit to meet the needs of their specific environments. In Sweden, for example, the SNAO states ‘Performance audits should primarily concentrate on circumstances related to the government budget, or to the implementation and
Performance auditing

results of government activities and undertaking. They may also refer to government activities in general’ (SNAO, 2008, 12). It adds that performance audits must ‘concentrate on issues that are important to society and in which there are clear risks of shortcomings in efficiency’ and states that the selection of audits must be based on the following criteria:

- The audit should be based on a presumed problem.
- The audit should concern actual government activities that are either ongoing or implemented.
- The basis of assessment for the audit must be clearly stated. It should normally either stem from direct decisions by the Riksdag (or in certain cases the government) or be possible to infer from the direct or indirect standpoint of the Riksdag.
- It should be possible to answer the audit questions with a high degree of reliability and precision.
- Reports by the SNAO should be drawn up in such a way that they may provide a basis for demanding accountability. It is therefore important in the audit to be able to apportion responsibilities and criticism between the parties involved.

SAIs have also taken their work forward differently through choice or through their interpretation of what is needed. As mentioned earlier, the Algemene Rekenkamer in the Netherlands, for example, has chosen to focus its work on the gap between policy intentions and implementation because, based on past performance audits, it considers that policy formulation is over-valued and policy implementation under-valued, leading to poor value for money for the Dutch taxpayer. It states that its performance audit work:

investigates whether the ministers’ policies are effective: do they produce the intended results? We look at whether the intended results can be achieved by means of the ministers’ policies. We also consider the implementation of policy: does the minister do what has been agreed and are the results for society? (Algemene Rekenkamer, 2009)

In part, such variety in the nature of the work is a reflection of the different regulations governing performance audit within the different jurisdictions. Some SAIs, for example, do not have the remit to examine effectiveness. In Australia, one of the eight states and territories excludes reviews of management and agency effectiveness, whilst two focus on systems rather than management (Nichol, 2007). In Canada, the legislation excludes assessing effectiveness directly, whilst in Ireland the legislation allows the
Comptroller and Auditor General (C&AG) to examine the systems, procedures and practices employed by bodies to evaluate the effectiveness of operations, making comparisons with other bodies, practices and systems as he sees fit, but not examine the effectiveness of activities directly himself.

The skills and disciplines of performance auditors also differ, helping to shape the work. In some jurisdictions the work is undertaken by professional accountants, in others it can be conducted by lawyers, or those with backgrounds in public administration, social or political sciences or some other discipline. In 2005, more than 80 per cent of European SAIs reported employing staff with legal qualifications, and all but the French Cour des Comptes employed staff with accountancy or business qualifications (National Audit Office, 2005). Different skills lead to different approaches. In Norway, for example, the introduction of new staff led to a more evaluative approach to performance audit (Gunvaldsen and Karlsen, 1999), whilst Lonsdale (2008 and in this book) draws attention to the methodological developments at the UK NAO which have arisen, for example, from bringing in staff with different skills or by making use of outside experts to help carry out audits.

The institutional settings within which performance audit is conducted also shape the work. They all have a place in the system of government provided for by the constitution or statute and have similar key characteristics – independence from government, professionally qualified staff, strong powers of access to information and documents, and the ability to report freely. But within Europe, for example, there are four distinct models of SAI (National Audit Office, 2005) – the court with a judicial function such as the French Cour des Comptes, a collegiate structure with no judicial function as can be seen in the Netherlands and Germany, an audit office headed by an auditor-general or president such as in the UK, and a ‘distinct model’ headed by a president and auditing at central, regional and local level, as in Austria. Considering how constitutional positions affect the way in which work is conducted in France and the UK, Astill and Page (2006) commented:

the judicial position of the Cour and the fact that Cour, like the French judiciary, is a state institution staffed by civil servants, means that the approach to these questions of authority, trust and expertise can be characterised as an ‘insider’ approach. It uses the authority, trust and expertise that are supposed to reside in a state institution to achieve the impact on the bodies it audits. The NAO . . . pursues what can be classed as an ‘outsider’ strategy: establishing its impact through proving its worth to those inside government through consultation with them and relying on groups and forces outside Whitehall to develop its conclusions and also nudge government to accept its conclusions when they are reluctant to do so.
BRIEF OVERVIEW OF SEVERAL NATIONAL PERFORMANCE AUDIT REGIMES

This book cannot cover the development of performance audit in all its variety throughout the world. Instead, our focus is on aspects of the conduct of the work in countries where performance audit has a significant, well-established tradition: Australia, Belgium, the Netherlands, Sweden, the United Kingdom and the United States (Table 1.2). The work takes many different forms and is used in a variety of ways by legislatures and governments.

In Australia, performance audits are undertaken by the Australian National Audit Office (ANAO) and by the state audit bodies. In 2008–09, the ANAO focused on themes of governance and project management; border security and national security; community support and well-being; environment; industry, science and education; and transformation of entities. Forty-five performance audit reports were prepared at an average cost of A$0.39 million, with topics ranging from the Management of Funding for Public Works, Army Reserve Forces, Centrelink’s Complaints Handling System, and Tourism Australia. The ANAO’s reports are reviewed by the Joint Committee of Public Accounts and Audit. The Committee reviewed 26 performance audits in 2008, supporting all ANAO recommendations. Its reports detailed the findings of the committee’s examination of the audit reports during that parliament and chose five audit reports for particular scrutiny (ANAO, 2009).

The Belgian Court of Audit undertakes audits at the federal level as well as at the regional and provincial level. In 2009–10, its performance audits covered topics such as the organisation and working of the Special Tax Inspectorate, the knowledge and conservation of collections by the Royal museums of fine arts and the Royal museums of art and history, the implementation of the Kyoto protocol, the use of scientific knowledge in healthcare policy, public–private partnerships, support for people with difficulties integrating into the labour market, staff planning in government, rational use of energy in buildings, the functioning of the office for employment and professional training, and educational and administrative support given to elementary and secondary schools. The reports of the Belgian Court of Audit are discussed by the committees in the legislatures to which they are submitted – the Federal Parliament, the Flemish Parliament and the Walloon Parliament.

In the Netherlands, the Algemene Rekenkamer investigates whether central government revenue and expenditure are received and spent correctly, and whether central government policy is implemented as intended. As part of this remit, its performance audits investigate
Table 1.2  The role of performance audit

<table>
<thead>
<tr>
<th>Use made of work</th>
<th>Resources employed</th>
<th>Outputs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Australian National Audit Office</strong></td>
<td><strong>$23.594 million in 2008–09</strong></td>
<td>45 reports in 2008–09</td>
</tr>
<tr>
<td>Rekenhof (Belgium)</td>
<td><strong>Use of external experts in exceptional cases</strong></td>
<td>15–20 reports per annum</td>
</tr>
<tr>
<td><strong>Reports taken by Joint Committee of Public Accounts and Audit</strong></td>
<td><strong>$23.594 million in 2008–09</strong></td>
<td>45 reports in 2008–09</td>
</tr>
<tr>
<td><strong>Used by policy committees in parliaments</strong></td>
<td><strong>Use of external experts in exceptional cases</strong></td>
<td>15–20 reports per annum</td>
</tr>
<tr>
<td><strong>Algemene Rekenkamer (Netherlands)</strong></td>
<td><strong>80 staff, although some part-time on performance audit</strong></td>
<td>15 per annum</td>
</tr>
<tr>
<td><strong>Used by parliamentary committees, and also government bodies</strong></td>
<td><strong>Use of external experts in exceptional cases</strong></td>
<td>15–20 reports per annum</td>
</tr>
<tr>
<td><strong>Riksrevisionen (Sweden)</strong></td>
<td><strong>100 staff</strong></td>
<td>15 per annum</td>
</tr>
<tr>
<td><strong>Used by various parliamentary committees, government ministries and agencies</strong></td>
<td><strong>133 million Swedish Crown (46% of budget)</strong></td>
<td>33 reports in both 2008 and 2009</td>
</tr>
<tr>
<td><strong>Government Accountability Office (USA)</strong></td>
<td><strong>Around 20% of studies used considerable number of external experts</strong></td>
<td>33 reports in both 2008 and 2009</td>
</tr>
<tr>
<td><strong>Reports directly to Congress. During 2007, 92% of its performance audits were undertaken in response to a specific congressional request or statutory mandate</strong></td>
<td><strong>Draws on its total staff of 3,100</strong></td>
<td>Published 1,038 performance-audit products in 2007</td>
</tr>
<tr>
<td><strong>National Audit Office (UK)</strong></td>
<td><strong>Considerable use of external experts</strong></td>
<td>63 reports in 2009–10</td>
</tr>
<tr>
<td><strong>Used by House of Commons Committee of Public Accounts as basis for scrutiny hearings</strong></td>
<td><strong>Considerable use of external experts</strong></td>
<td>63 reports in 2009–10</td>
</tr>
</tbody>
</table>
Performance auditing

whether ministerial policies are effective and produce the intended results (Algemene Rekenkamer, 2010). It states that it audits ministerial efficiency to see whether the right amount of money is used to achieve the intended results. It focuses on central government but also undertakes performance audits of institutions that use public funds to carry out, at arm’s length, statutory tasks. These bodies include schools, benefit agencies and police forces. In total, around 80 auditors work on performance audit in the Rekenkamer, auditing €350 billion (Turksema and van der Knaap, 2007). It produces 15 reports a year, recently covering, for example, subsidies and special purpose grants, services for young homeless people, the environmental impact of road transport and jobless people without qualifications. The House of Representatives’ Committee on Government Expenditure receives all the Rekenkamer’s reports, before they are forwarded to specialist committees. Some time after the publication of the report the Committee collects and passes on questions which members of the House of Representatives have on the audit work. The answers and responses from the audited body are published.

In Sweden, the Riksrevisionen audits the Swedish state, undertaking the financial audit of more than 250 agencies and carrying out about 30 performance audits a year. In 2008–09 this included reports on: controls on cross-compliance in EU farm support; the Government’s sale of 8 per cent of the shares in TeliaSonera; cultural grants – effective control and good conditions for innovation; the Swedish for Immigrants programme to provide immigrants with basic language skills; higher education quality; and the quality of private care for the elderly (Riksrevisionen, 2009). Audit findings are presented in a report approved by the responsible Auditor General which is submitted to the government, except where the Swedish parliament oversees the agency. This includes public agencies, foundations, state owned enterprises, entities using public grants and benefits and unemployment benefit funds.

The National Audit Office in the United Kingdom produces around 60 major reports a year, mostly ‘value for money’ reports. It has statutory powers to examine the economy, efficiency and effectiveness with which central government and a range of other bodies – including universities, further education colleges, hospitals and private contractors working for government – use their funds. Around 270 staff work on VFM audit, many of whom were trained by the office as accountants, but others come from a range of disciplines such as statistics and operational research. Reports by the NAO are used as the basis for hearings of the House of Commons Committee of Public Accounts, which has a wide remit and – in the view of many – a reputation for tough questioning. The Comptroller and Auditor General – head of the NAO – attends the Committee as a permanent
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witness, providing, along with the appropriate audit teams, briefing and assistance to the Members of Parliament on the Committee. Reports in the early part of 2010 included topics such as the cost of public service pensions, reorganising central government, Home Office management of major projects, delivering the multi-role tanker aircraft capability, support for business during a recession, regenerating the English regions and the effectiveness of the organic agri-environment scheme.

The United States Government Accountability Office operates under a broad mandate to investigate ‘all matters relating to the receipt, disbursement, and application of public funds’ and ‘to make recommendations looking to greater economy or efficiency in public expenditures’. It is independent of the Federal Executive Branch and reports directly to Congress. In 2007, GAO began work on 554 new performance audit engagements and published 1,038 performance audit products. Around 92 per cent of the performance audits in 2007 were undertaken in response to specific congressional requests or statutory mandates, with the remainder self-initiated. To help provide Congress with information and analysis on a wide variety of questions and enable it to make oversight, policy and funding decisions, GAO produces a wide range of audit products including correspondence, testimonies, briefings and audit reports. Its performance auditors are supported by experts in technical disciplines such as data collection, statistics and law, but also health experts, engineers, environmental specialists and actuaries (GAO, 2008).

Beyond the SAIs

Not all performance audit is undertaken by state audit institutions at national level. Paul Nichol’s examination of audit in Australia (Nichol, 2007) highlights how the states and territories have established varying definitions of performance audit and have different audit laws. Katrien Weets’ chapter in this book focuses on local government performance audit in Rotterdam, one of a number of Dutch cities that have developed their own audit offices. Mark Funkhouser’s chapter also gives examples of performance audit in cities and states in the United States, showing how more and more American cities established performance audit units in the 1980s and 1990s. In the UK, the Audit Commission and District Audit have a long history of value-for-money audit in areas such as local government and the health service, particularly after 1982 legislation, although at the time of writing the government announced the abolition of the Audit Commission and it remains to be seen how local government value for money will progress in the future. Following the introduction of devolved government arrangements in Scotland and Wales, two separate audit
bodies were established – the Wales Audit Office and Audit Scotland. In both cases the form of performance audit developed has differed from the approach followed at the National Audit Office.

WHAT IS THE ROLE OF PERFORMANCE AUDIT?

To date this chapter has emphasised variety and difference, but we can still draw together some common themes which help us to think about the role performance audit plays. Firstly, we can see that it is now widely considered as an essential element of a balanced audit portfolio for an SAI, going beyond, although in some cases feeding off, more traditional audit work. In the UK NAO, around one-third of resources are spent on VFM audit (National Audit Office, 2009). In Sweden the figure is nearly half and in Australia performance audit takes up one-third of the ANAO’s resources and 60 per cent of the staff. In many developed audit offices, performance audit holds a substantial, if not the predominant, position, and it is the work which attracts most attention. It is thus an important part of a comprehensive state audit function.

Secondly, we can see the publication of performance audit reports as an accountability mechanism in its own right, offering detailed descriptions or analysis of public sector performance, based on independent access to authoritative documentation and information. Audits generate recommendations on which public officials can, and often do, take action. As Pollitt (2006) has put it:

One type of performance information which does seem to command political attention is that which comes in the shape of performance audits produced by national audit offices. Frequently such attention is semi-mandatory, in the sense that ministers and/or special committees of the legislature are procedurally obliged to respond to such reports. This does not guarantee substantive impact (and certainly not implementation of recommendations) but it does mean that some sort of formal consideration and reply is required.

Performance audits provide visibility to assessments of performance and the increasing willingness of auditors to publicise their work in different ways – via the newspaper, radio and TV, and increasingly on podcasts and even YouTube (the Algemene Rekenkamer’s report on elite sports was publicised this way in 2008, as was the UK NAO’s work on Successful Commissioning in 2010) – has meant that the work has considerably more profile now than in the 1990s. Audits place in the public domain what Geoff Mulgan has called ‘unsettling knowledge’ – subjects that governments would prefer in some cases not to have examined or publicised (Mulgan, 2006).
Thirdly, performance audit has increasingly become the basis for legislatures or their scrutiny committees to undertake their work, often providing the majority of the evidence for their enquiries, and for follow up action by government. The relationships between performance auditors and scrutiny committees are many and varied. In the Netherlands, the Algemene Rekenkamer states that the House of Representatives and the government are its principal ‘customers’ and sees its job ‘to provide parliament with useful and relevant information so that it can decide whether a minister’s policies are effective. Wherever possible, we match our audits to parliament’s wishes and needs.’ In the United Kingdom, almost the entirety of the programme of the Committee of Public Accounts is made up of VFM reports (the remainder are mostly reports on qualified financial accounts), which it uses as the basis of questioning senior officials on their organisation’s performance. In these settings, as White and Hollingsworth (1999) put it, ‘democratic accountability is given real bite: audit allows Parliament to draw aside, at least partly, the veil of ministerial responsibility and to participate in the process by which government controls itself.’

A fourth perspective is that performance audit has enabled SAIs to argue that their work ‘adds value’ in ways which go beyond concerns with regularity and compliance, which some critics have argued is their very limited perspective (Behn, 2001). Instead, performance audit work has been presented as well considered pointers to how government agencies can improve in keeping with the wider performance agenda referred to earlier. To this end, performance audits have been used, for example, as the basis for conferences and seminars with practitioners in the United Kingdom and the Netherlands, designed to use audit work as a starting point for a constructive and collaborative discussion about performance improvement. Audit work has also generated self-assessment tools for officials and been the basis for considerable informal advice and guidance. Lonsdale and Bechberger examine these themes later. Performance audit has also brought SAIs into close contact with different communities of practice, experts and civil society groups in a way that would not happen if they focused only on the financial accounts. Through this work, SAIs are contributing to wider policy debates.

Finally, in thinking about performance audit, we can see it as one of many forms of policy analysis and evaluation that have grown up in the last 30 years, with its practitioners increasingly tapping into other disciplines in a search for traction. This helps to reinforce the point that performance audit is a hybrid activity, making use of whatever means it can find to generate sufficiently robust evidence for its purposes. The relationship between performance audit and evaluation has been well covered in the audit literature (for example, Pollitt and Summa, 1997, Leeuw,
1996, Pollitt et al., 1999, Mayne, 2006, Bemelmans-Videc, Lonsdale and Perrin, 2007), much of it written by authors with evaluation experience. There is general acceptance that auditors use many of the same methods as evaluators although the way they use them, the institutional settings, the purposes to which the work is often put, as well as the mindset of those undertaking it can often be very different. At the same time, the major advantage that auditors have over evaluators is their greater statutory powers of access and the ready-made, formal processes for ensuring that reports are responded to by government.

THEMES AND STRUCTURE OF THE BOOK

As noted at the start of this chapter we live in a time when concern about public sector performance is at the very centre of political debate. We are also moving from a long period of incremental growth (and occasionally incremental contraction) of the public sector, during which audit offices have honed their skills, to a more turbulent time characterised by wholesale cuts in programmes. Arguably, this could put the audit office and its concerns centre stage of perhaps the most important issues of the coming decade or more. Alternatively, it may render their approaches less useful than in the past, as the issues cease to be about efficiencies, and are more about political decisions around the removal of government from whole sectors. At the same time, the cuts will not pass SAIs by; indeed, the audit offices in Australia and the UK are operating within reduced resources in 2010.

This raises many questions. For example, how should performance auditors respond in their examinations to this new world? Where does the major retrenchment in public spending leave the auditors? If retrenchment is about major cuts in public spending, how can auditors contribute if they do not question policy? It is also clear that, on its own, the proliferation of performance data does not correlate simply with improved performance, but it is less clear how to respond to this. And if the growth of state audit institutions promoting performance audit has not necessarily led to a greater sense of accountability, have their efforts over the last 25 to 30 years been wasted?

As well as being a topical subject, there are other reasons for studying performance audit now. Despite some growth in the last decade or so, several of the main texts are a decade or more old. Yet this period has seen a wealth of case study material which is available to explore aspects of performance audit and, we believe, there is an appetite for a more contemporary analysis based on these studies. At the same time there have been
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major developments in the ways in which the work is conducted and considerably more interest shown in many countries in the conclusions and wider contribution of audit work. It has also been argued (RAND, 2009) that ‘in recent decades this task of supporting and delivering performance audit has become technically more demanding.’ In particular:

the architecture of the contemporary state is changing in ways that problematise the role of performance audit and that at least part of the response to this must be to adopt a more sophisticated set of audit practices. In this context, ‘architecture’ refers to the relationships amongst the organisations involved in delivering, communicating and acting upon performance audit (audit bodies, organisations commissioned to support the work of audit bodies, parliament, government, the press, and departments and agencies), the resources they use (money, statutory powers, skills, influence) and power relationships that hold them together.

These changes are considered to be: the problem of agency and identifying who is responsible; the problem of attribution; the problem of measurement; and the problem of ‘whose benefit are we measuring’ and the need to recognise that there may be multiple stakeholders.

Another justification for examining the area afresh is that it is more than a decade since the publication of Power’s book The Audit Society (1997), which raised concerns about the impact – sometimes adverse – of audit, and comes after perhaps twenty years of expansion of regulation, evaluation, inspection and scrutiny activity of all kinds. It is, therefore, a good time to be examining afresh the ways in which SAIs operate, how their work is communicated, and with what consequences.

The book is an edited collection, produced by authors who have worked in or around audit offices for many years, and have written about them before. Several are academics or have links with academic institutions. Thus, the book has the perspective of both practitioners conversant with the academic literature on audit, and academics who have been involved in the practice of audit. It is also designed to be of interest to those who are the subject of performance audits – officials in public-sector bodies around the world – and others who use the reports for accountability and performance improvement purposes.

The book is structured into four parts. Accompanying this Introduction in the first part, Jan-Eric Furubo examines further what we mean by performance audit and seeks to identify the essence of the work. His chapter provides a working definition for performance audit for the book, to which we return in the Conclusions chapter. In the second part, we consider how performance audit is conducted in a number of countries. We start by looking at how audit bodies select their studies, a key element of

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performance auditors’ independence. Vital Put and Rudi Turksema, who both have experience in audit offices, examine the influences on study selection in the Netherlands and Belgium, countries with contrasting approaches to undertaking audits. Vital Put then considers the norms and criteria used in performance audits, against which auditors assess the performance of the bodies they scrutinise. This chapter looks at the norms chosen by audit bodies in the Netherlands and the United Kingdom.

Having selected a topic and decided how to make an assessment, the next stage for performance auditors is to choose the methods with which to gather or analyse the evidence. Jeremy Lonsdale, looking specifically at the United Kingdom, considers how the choice of methods used has developed over the last 20 years at the NAO, focusing in particular on how the context in which the work is done shapes the decisions about what approaches to take. Following this, Alex Scharaschkin looks at how auditors use evidence to structure their arguments. This chapter examines what auditors consider adequate evidence and how they go about marshalling it in ways that will be robust and allow them to withstand challenge from those subject to audit. Linked to this, Justin Keen, an academic in the health field, who spent two years as Research Fellow at the UK National Audit Office in the late 1990s, considers how auditors come to judgements. Performance audit involves the generation and analysis of evidence from a range of different sources. This chapter takes a detailed look at the thought processes and influences on auditors as they reach their judgements, before setting a framework for discussing the strategies that performance auditors use to produce their reports. Finally in this section on the conduct of audit, Peter Wilkins and Richard Boyle consider issues of Standards and Quality. The quality of performance audits is crucial to the standing and credibility of state audit institutions. Over the years, auditors have developed their own standards and created quality assurance arrangements to help maintain and raise standards, but others are now becoming involved in standard-setting processes.

The third part of the book assesses what performance audit is contributing to the improvement of government. This is a contested area. Eddy van Loocke and Vital Put examine the empirical evidence of the impact of performance audits, drawing on 14 empirical studies and concluding that there is evidence that the impact can at times be significant, at others non-existent. Mark Funkhouser – a long-time elected auditor in Kansas City in the United States – follows on in a positive vein and takes on two academic critics of performance audit, Robert Behn and Melvin Dubnick, arguing that auditors have strong grounds for believing that their work has an impact. This chapter shows how, despite their scepticism, there is evidence from the United States that performance audits can and do have real impact on the ways in which government operates. A more sceptical
Introduction

viewpoint is provided by Frans Leeuw, with a perspective which straddles audit, government, evaluation and academia. He considers the evidence of the perverse effects of performance audit. This chapter – drawing on a wide range of literature – presents the author’s views on problems with performance audit. All three chapters highlight the importance of performance auditors knowing the value of their work, and this is taken further by Katrien Weets, who considers the effectiveness of performance audit at the local government level. Adapting a methodology developed elsewhere, this chapter explores the extent to which performance audits are truly effective, and considers what factors influence their ability to secure impact. It focuses in particular on the work of the city audit office in Rotterdam in the Netherlands.

Continuing on the subject of impact, we end this section with two chapters exploring ways in which performance auditors are seeking to enhance the value of their work – through sharing learning and by being responsive to those they audit. Jeremy Lonsdale and Elena Bechberger look at how performance auditors aim to secure learning, at the same time as playing a role, in accountability processes. In recent years, auditors in many countries have concluded that simply producing audit reports and publicising their findings is not enough to help generate beneficial change. This chapter examines the development of other forms of output from audits, including good practice guides and toolkits designed to assist government officials to do their job better. Peter van der Knaap considers how SAIs can increase their responsiveness to those they audit in an attempt to make their work more effective, looking at how the Algemene Rekenkamer in the Netherlands has been more participatory in its selection of audits, choice of methods and style of audit.

Finally, part four concludes by drawing on the preceding chapters to answer the question – so what? Jeremy Lonsdale, Tom Ling and Peter Wilkins consider the implications of the findings for audit offices and governments, and conclude on the extent to which performance audit is helping to improve the performance of government.

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