ACCA

Breaking out: public audit's new role in a post crash world

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The consequences of the 2008 financial crisis continue to play out around the world but crisis has spurred fresh thought, especially among public auditors.

In this paper, contributors from Scotland to Bhutan are upbeat as they reflect on their role in accountability and improving public services. They also speak about improving public engagement and strengthening scrutiny and public service effectiveness.

Foreword

The role of the civil service has transformed over the last few decades, towards a much greater focus on delivery and away from policy advice and administration. In part, this is a result of the decision by recent governments to contract out more and more of our public services to the private sector.

While filled with bright and capable individuals, the skill set within the Civil Service has failed to keep pace with this change. Departments too often lack the capacity to procure and manage contracts with private providers effectively. Implementation of major projects, particularly in IT and defence, is typically disastrous. Both result in the waste of millions, if not billions, of pounds of taxpayers' money. Yet the Public Accounts Committee encounters the same failures time and time again. Parliamentary scrutiny has undoubtedly strengthened in recent years, but while government increasingly recognises the need for dramatic improvements in the capacity of its officials, this has yet to be translated into real change.

The other major concern of my Committee is our ability to follow the taxpayers' pound in a world where public services are increasingly fragmented and delivered by different types of providers.

That is why I welcome this collection of essays from the ACCA. Public audit, and the role of parliamentary committees like mine in providing effective oversight of the way government spends taxpayers' money, needs to grow in ambition and delivery. It's not enough just to audit the books and make sure financial data are accurate, important though all that is. Audit has to move forward, to test efficiency and effectiveness both in how money is raised, as well as how it is spent – and that means closer examination of delivery, of how the machine of government operates and then the translation of our scrutiny into lasting change and improvement.

That seems to be the message coming from Canada and Australia as well as, within the UK, Scotland and Wales. But, as Steve Bundred says in his contribution, the ambition poses a challenge to us, the MPs. It's partly, as he says, getting resources allocated to backbench parliamentary committees so they can do a decent job of investigating and questioning. But it's also parliamentary follow through – providing time for debate and paying attention to what does (and doesn't) happen after we have reported. Steve has a great phrase about the dogs barking but the caravan moving on.

I don't just want the PAC to bark: we want to be a catalyst in permanently improving how the government does its business.

Margaret Hodge
Chair, Public Accounts Committee

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Introduction

by David Walker, journalist, broadcaster and author

The consequences of the 2008 financial crisis continue to play out around the world. Currency turmoil in early 2014 was caused by the withdrawal of the US Fed's special measures to swamp the system with liquidity – sharpening questions about the future of the liberal trading regime and international cooperation.

In many countries, public finance is undergoing harsh adjustments, felt most keenly in spending and reductions in social support at a time when – in certain countries – demographic change increases demand for assistance.

But crisis has spurred fresh thought, especially among public auditors. Contributors to this collection are buoyant, as they reflect on their role in public services, their accountability and improvement. The mood among professionals across the globe is bright. Auditors, on this evidence, are eager to assume a new responsibility. Suggestions are made about speaking more directly to the public, about closer liaison not just with parliamentary accounts committees but all those concerned with scrutiny and public service effectiveness. Of course emphases differ in the countries represented here, which range from Australia to Jamaica, Scotland to Bhutan. Does the new concern with improvement dilute a pristine audit role around assurance; is vital independence compromised if audit becomes assimilated into management; can audit only ever be as effective as public attitudes towards corruption and malpractice allow?

Answers will, of course, have to recognise the specifics of place, history and administrative culture. But in their diversity these contributions have in common the remarkable self confidence of a profession both intellectually stirred by the crash and financial crisis and convinced, as the boundaries of public audit widen, it must play a large part first in righting then in improving the way public money is spent and accounted for.

THEMES

Public audit is breaking out. Auditors must intervene earlier in the processes by which money is allocated to departments then projects prepared. Only that way, the comptroller and auditor general of the UK Parliament argues, can problems be nipped in the bud. Providing assurance earlier in the life cycle of a project can limit the impact of administrative failures, preventing them from snowballing into significant value for money failures.

So audit looks 'upstream' to how decisions are made within government departments and agencies. It must also look 'downstream', to how services are delivered. Yes, it's trick to prove a causal link between audit and performance, and there is much work to be done on measuring audit's own effectiveness. What happens, asks John Muwanga, drawing on his experience as Uganda's auditor general, when public demand for better services is addressed to auditors; he talks about an 'expectation gap' between what auditors can do and what the public thinks they must do.

Also 'downstream' lies the increasing proportion of public services that are outsourced to private firms. Auditors are supposed to 'follow the money', Ron Hodges and Gillian Fawcett argue, and in the UK the trail leads straight into the performance of such firms as Serco and G4S. Auditors can no longer accept a 'black box' approach to contracting, where the only instrument of accountability is the contract itself. Auditors must penetrate beyond. The private sector is now heavily involved in delivering public services in the UK, but its accountability is sub-standard. If we want to better manage service failure risks and boost public trust then accountability and transparency need strengthening.

But if auditors no longer arrive at the scene after the car is crashed, do they then assume responsibility for the condition of its engine, let alone whether the driver was wearing a seat belt. The view from Australia, from John Doyle the auditor general of the Victoria, is that there is a role for auditors to go beyond a narrow mandate and make recommendations for improving performance. Audit can be a catalyst for improvement, but it is for public bodies themselves to take responsibility for improving services. The European Court of Auditors has a new vocation, says Lazaros Lazarou former accountant general of the Republic of Cyprus and now a member of the court: better financial management will need to be matched by developments in audit. In the European Union's next budget period auditors must focus on the results of spending programmes.

In this view, auditors become catalysts for improvement, advising not just parliament but departments and agencies themselves how money is best spent – seeding experience across governments that are not always joined up, and drawing on the wealth of past audit experience.

But wait, says Marcine Waterman, controller of audit at the Audit Commission – the English government agency that is now being wound up. Auditors are not improvement advisers. They can hold a mirror up to a public body that is not performing, but must intervene sparingly and modestly. Public audit has a subtle relationship with public service improvement. The two are not unconnected, but equally there is a definite distinction to be made between them. Audit can contribute to improvement. But auditors are not consultants or at least they are not acting as auditors if they do consultancy.

Despite that, several of our contributors are clear that auditors must follow up. Neither they nor the parliamentarians they report to can report and walk away. Auditors are vitally concerned how recommendations are implemented. Huw Vaughan Thomas, auditor general for Wales, talks of real time auditing. In the Canadian federal government, audit has been on top of the post-crash stimulus package, as it has manifested as projects and programmes.

In this emerging picture audit has width. In many countries, auditors may be the only people able to look across the piece, to take a synoptic view of government. That means, according to Huw Vaughan Thomas, following every pound of allocated funds across the tiers of government. As local authorities and agencies reshape themselves in the light of new demands and fiscal exigency, the auditor – in alliance with scrutineers, inspectors and regulators – becomes an advocate of adaptation and change. I do not want to see public audit acting as an unhelpful brake on transformation, because in many instances the status quo is itself a dangerous option.

Audit has to look forwards and backwards in time, flagging when governments (not always consciously) make spending decisions with consequences stretching into the distant future, for example on pensions or energy. That makes the auditor an advocate of comprehensive statements of assets and liabilities. England is pushing Whole of Government Accounts but other countries, including Scotland, need state-wide pictures of commitments notes Caroline Gardner, the auditor general for Scotland. 'Good public sector financial reporting…helps decision-making, by providing evidence about the long-term consequences of different options. It ensures public bodies can be held to account for their decisions and helps encourage confidence, so public and investors trust in the decisions of government.'

Audit must find a voice. On the one hand, the public's perception of audit needs to expand, as auditors are recognised as principal players in the drama of service improvement. On the other, public expectations must not run ahead of possibility. The public may need to be educated or 'sensitised' in John Muwanga's phrase to what auditors can accomplish when they ought to concentrate on the decisions taken by elected politicians. A background thought here is about credibility, which may depend on perceptions of independence. In England, with the demise of the Audit Commission, public bodies are to appoint their own auditors, which may compromise a basic principle.

So much depends on the public's own willingness to speak up and out about the quality of public decision making. Pamela Monroe-Ellis, Jamaica's auditor general, argues that audit's effectiveness depends on a surrounding web of law and convention, constraining bribery and corruption. The law, however, can only ever go as far as public opinion wills. Auditors general must use audit to engage and educate the public. Advocacy of governance reform by the accountancy profession is not sufficient – civil society groups and leaders in society should accept their responsibility to increase citizens' awareness.

A central link in the chain of accountability is that between professional auditors and parliaments and legislatures. In Bhutan, the very future of democracy may depend on the public's appreciation of their collaboration. Jigmi Rinzin, former member of the country's public accounts committee, explains how MPs can 'add value' to audit reports by applying them to their scrutiny of executive performance. Parliament through the PAC must go beyond financial scrutiny to assure every programme initiated by the government brings maximum value for money. Parliamentary discussion increases public awareness of what departments are doing and exerts additional pressure for improvement.

But parliamentary effectiveness costs. Politicians are not held in the highest regard anywhere, yet their scrutiny and improvement vocation implies spending more on specialist committee work. But unless MPs can follow through, their stern words may ring hollow, observes Steve Bundred, former chief executive of the Audit Commission. Although there is a formal system for monitoring the government response to its recommendations, this response usually takes the form of an anodyne Treasury minute received some months later. And if recommendations are accepted but not then implemented, or if the guilty walk free, there is very little the committee can do. In the words of the

Arab proverb 'the dogs may bark, but the caravan moves on'.

It's a view shared in Australia Perhaps, Bundred muses, we need a more comprehensive re-evaluation of the system within which audit, scrutiny, inspection and regulation rub shoulders. Despite a plethora of inspectors in England in recent times, spectacular failures still occur. Or perhaps, instead of going wide, we need to go deeper. This has been the line of attack in Canadian federal government, notes James Ralston, the country's comptroller general: creating departmental audit committees with external expert representation has led to tighter risk and control frameworks providing assurance – to echo a phrase that recurs in these contributions – earlier in the life cycle of policy and decision making.

CONCLUSION

The operating terms and salience of public audit differ across the countries represented here. But contributors have a unity of purpose that goes beyond shared professional identity or the fact that from Ottawa to Cardiff to Kampala to Kingston, parliamentary public accounts committees and audit systems share DNA. That purpose stems from where governments and public finance find themselves five or so years on from the crash. The actual numbers – debt, revenues – vary. Political choices determine the size and shape of states. But few countries (the blessed Norway aside) stand outside the squeeze. What's under pressure is not just money, services and taxable capacity, but also systems of government. As they adapt, auditors become more than ever key players – both in counting and assuring what governments do and taking greater responsibility for improvement. That's the heartening message from this collection.

Amyas Morse

Comptroller and auditor general, National Audit Office, England

The public sector environment continues to change in the context of austerity and cost reduction and as a result of the UK government's reform agenda. At the same time the proposed abolition of the Audit Commission will alter how public audit is organised and undertaken in England. This combination not only presents new risks to public audit but opens opportunities to influence public administration, and how it safeguards public money, upholds proper standards of conduct and achieves value for money.

Under the government's austerity programme, spending is set to fall by more than a fifth in real terms from 2009/10 to 2017/18. Relative protection to some budgets – such as health, education and overseas aid – requires greater reductions in other areas, for example local government and policing. Most commentators agree that austerity is unlikely to end in 2017/18, the current limit of government forecasts, despite better recent trends.

The government's programme includes reorganising the National Health Service (NHS), extensive changes to welfare and transformation in defence. It is also opening up public provision to private and third sector suppliers, and moving transactional services online. Reforms in the NHS and local government have altered accountability and funding for local services and added to local bodies' responsibilities.

Public sector organisations are having to rethink how they operate. Government departments, councils and other public bodies have generally managed so far within reduced spending limits. However, with the scale of savings required, the time is long past for the old approaches of 'freeze' (for example on public sector pay) and 'squeeze' (projects continue with the risk short-term under-funding results in increases in whole-life costs). For local government, health and schools financial constraints combine with rising demand to present real risks to sustainability. With the scale of the reforms under way, arrangements to deal with financial or service failure have not yet been fully understood or put to the test.

Auditors have core skills but will now need to take an agile, adaptive approach. The profession is used to considering such issues as 'going concern' or balance sheet impairments within financial statement audits. However, a more flexible and integrated approach will be necessary to address the wider risks to value for money, regularity and propriety. We are already starting to see this in our work. We have reported on indicators of financial sustainability in the NHS, and are now looking at the performance and capability of the Education Funding Agency, which oversees financial management and governance for open academies and major capital programmes for schools.

At the same time, we are witnessing an increased demand for financial management disciplines, which have been more prevalent in the private sector where pressure for sustainable profit improvement has driven their development. In the public sector (the NAO looks particularly at central government), austerity has increased the demand for more robust and realistic financial planning, supported by risk-based challenges over affordability and value for money.

There is an appetite in government to improve management information and put finance at the heart of decision-making. Public auditors are well placed to bring their influence to bear.

The National Audit Office sees an opportunity to influence reform and to maximise the value of public audit to the UK Parliament, improve the value of public spending and drive wider improvements in public services. By focusing on the following principles, we will be well placed to seize it. They have broad contemporary applicability.

Focusing on strategic issues. Different public bodies may operate in similar contexts. For example, the Defence, Transport and Energy departments face having to implement large-scale programmes and projects. Aligning our operations with their challenges is integral to our new approach.

Maximising insight by integrating audit disciplines. Ensuring that knowledge is shared across the disciplines such as financial audit and value for money work can maximise insight, provide a more proportionate and risk-based approach, and allow auditors to tailor their outputs to stakeholders.

Intervening earlier to prevent failures from escalating. Providing assurance earlier in the life cycle of a project can limit the impact of administrative failures, preventing them from snowballing into significant value for money failures. For example, we reported early on the business case for the High Speed 2 rail line and on the implementation of Universal Credit, a central element in the government's welfare reforms.

Strengthening investigative capability to report on emerging risks and responding to public concerns. As government seeks to expand the range and scale of private and third sector provision of public services, auditors need to be mindful of the new risks this can introduce for service quality, financial probity and potential service failure. These risks can be mitigated if we expand investigative capabilities, to follow up on concerns raised by parliamentarians, the public or employees, for example through correspondence or whistleblowing.

Practising what you preach. Public auditors must apply the same standards to themselves as they would to their audited bodies, through cost reduction and financial management discipline.

There is still so much that public auditors can contribute to improving public services. Public administration has a long history of repeating the same mistakes. It is not easy to make quick wins in a system as large and complex as the UK's public sector. But by focusing more resolutely on strategic issues, by intervening earlier and by broadening our range of reports and outputs to speak to our various stakeholders, I am convinced that the effectiveness of audit regimes can be maintained.

John F. S. Muwanga

Auditor general of the Republic of Uganda

Public audit is today being tested as a mechanism for promoting accountability and transparency within government, especially in developing countries. The protests about service delivery are growing in volume, but what is the auditor's role? Do citizens, service users and other stakeholders want government bodies to produce quality financial statements, so that the supreme auditor (for example the auditor or comptroller general) can express unqualified opinions on their financial state? We are working in a context where all public bodies, including Supreme Audit Institutions (SAIs) are being called on to provide more information and become more accountable to the public.

Accountability falls under the rubric of enhanced service delivery. Under the rules of the International Organization of Supreme Audit Institutions (INTOSAI) national auditors are required to report on their own activities and use of resources. They should assess their operations and performance and report on the efficiency and effectiveness with which they have used public resources appropriated to them. International principles specify the use of performance indicators to assess the value of audit work, external feedback and annual reporting to parliament.

The increasing demand for accountability shows what the future holds for public sector audits in terms of the auditor's responsibility, the external performance reporting framework and outsourcing policy.

Over the years, the audit profession has battled with the expectation gap between what citizens, parliaments and other audiences expect to find and what is actually reported by Supreme Audit Institutions (SAIs). This gap has at times manifested itself as the difference between information provided and what stakeholders expect in order to satisfy their sense of accountability. Through stakeholder engagement, such as sensitisation workshops, we can address both the expectation and information gaps.

Despite such efforts is there also a gap between the extent to which audit reports enhance service delivery and service users' satisfaction? To what extent is this difference the cause of service delivery protests?

Maybe as public sector auditors we are not answering the following questions well enough.

Is it enough just to fulfil statutory obligations and submit audit reports to parliament? Do our reports help make government more efficient and provide better services to its citizens? Does our work make a difference to people's everyday lives?

In response, public sector auditors need to see beyond their statutory obligations. SAIs have to rise above their call of duty and start questioning the adequacy of government polices.

Perhaps we need to broaden the auditor's responsibilities beyond issuing audit reports.

Let's consider revisiting our audit mandates, bearing in mind that this may question the legal framework which forms the basis of our existence.

We need to think about the benefits arising from audit report findings and recommendations. They may not lie in 'the recommendations made', but rather in how they are implemented. One of an auditor's basic objectives is to have his or her work make a difference.

The International Standards of Supreme Audit Institutions present principles of transparency and accountability for SAIs to help them lead by example in their own governance and practices. One means is performance reporting. Reports look at the extent to which an SAI meets its legal obligations under its audit mandate and required reporting. They include observations resulting from financial and performance audit and assess the SAI's use of public resources. They evaluate and follow up on the SAI's performance as well as the impact of audit work.

The challenge here is identifying indicators for both outcomes and impact. Corporate plans for SAIs may only spell out strategic objectives. But reporting on outputs, outcomes and impact would help stakeholders understand how SAIs contribute to enhancing service delivery. When there is no accepted performance reporting framework for SAIs stakeholders will ask about whether they do benefit from the work of SAIs.

A key question is what has caused the failure for many SAIs to properly report on the outcomes and impact of their work.

SAIs should adopt the international standards in their entirety. All audits including those outsourced to private audit firms must fully comply with the INTOSAI standards and not only those commonly applied by private firms. To this end some SAIs have had to review their outsourcing policies. What about firms that show little willingness to conform? Do we need a common framework for professional standards? Private firms must be given vivid incentives to rise to the challenge and embrace the international standards.

Professor Ron Hodges and Gillian Fawcett

Birmingham University

Head of public sector, ACCA

In recent years in many countries the public sector has undergone radical change and none more so than in the UK. Driving factors include the need to get a tighter grip on rising public expenditure, increase productivity, to 'achieve more for less,' and deal with the aftermath of the 2007–8 financial crisis.

Greater emphasis has been placed on improving quality by delivering services more quickly, making them more accessible and increasing choice. As a result the public sector landscape has changed, through increased privatization, public private partnerships and more commissioning of private companies in health and social care, security and education.

The money given to private companies to deliver public services is substantial. The National Audit Office[1] estimates UK central government spends £40bn with third parties; in 2012/13 total UK public spending on goods and services with third parties was £187bn. The NAO makes recommendations to the Cabinet Office to improve the government's management of contracts to secure better value for money (VfM) from its strategic suppliers. What we argue for here is more attention to companies' own external accountabilities as well as to internal processes. Private contractors are now responsible for significant public services, yet they do not undergo the same audit rigor as their public sector counterparts. This essay asks whether such companies should be subjected to performance audit with wider scope, going beyond financial detail to account for the value they offer in their public service activities.

Public service performance is usually validated by independent audit. In the UK the NAO, the Wales Audit Office, Audit Scotland and the Northern Ireland Audit Office carry out performance audits, reporting to their respective parliamentary and assembly public accounts committees. Performance auditing for local government in England resides with the Audit Commission until 2015 and will then transfer to the NAO.

But companies delivering public services are not routinely subject to performance audit. Their reporting is essentially limited to a true and fair opinion on their financial statements. The legally sensitive nature of audit in the private sector has tended to deflate shareholders' expectations and UK courts have tended to take a consistently cautious line on questions of auditor liability.

Nevertheless, the spotlight has shone on companies after high profile failures, including the insolvency of Southern Cross care homes and G4S's bungled 2012 Olympics security contract. We argue the causes of these failures could have come to light earlier, and remedial action taken, had these companies undergone performance audit with wider scope.

G4S was appointed as Olympics security services provider in 2011 but in early 2012 it admitted it could not supply the staff needed to safeguard the Olympics. Earlier scrutiny by the House of Commons Public Accounts Committee (PAC) had focused on the London Organising Committee for the Olympic Games. There had been no examination of G4S's reliability, processes and capacity before or during the contract, either by its own auditors or the NAO. Such an audit would have identified performance issues earlier and led to a remedy, saving time and money.

G4S along with Serco are being investigated by the Serious Fraud Office[2] after being accused of overcharging for the electronic tagging of criminals. Here is another instance where performance audit might have earlier highlighted weaknesses in process and systems. Audit with wider scope might also have identified the delivery and financial management risks being run by Southern Cross Care Homes (a provider of care services for 31,000 residents) and ensured continuity in the care of vulnerable people.

In addition, obstacles are often put in place to stop parliaments, auditors or citizens 'following public money'. Commissioners and private providers hide behind a veil of confidentiality agreements and commercial sensitivities to avoid divulging performance information. For example, in reviewing superfast broadband in rural areas in England the PAC found local authorities choosing not to disclose which specific areas would be included in British Telecom's delivery plans on the grounds of commercial

1. NAO, 'Managing government suppliers', HC811, Session 2013–14, 2013, <http://www.nao.org.uk/report/memorandum-managing-governments-suppliers/>.

2. Serious Fraud Office, press release, 4 November 2013.

sensitivity; even a freedom of information request[3] was stymied. So barriers are built to parliamentary accountability.

Performance auditing can improve risk management, see early warning signals and go on to find ways to improve VfM. There are plenty of examples. The NAO's review of the Intercity West Coast franchise competition gave the UK Parliament assurance about the events that led to the Department of Transport to make its decisions and allowed MPs to hold it to account for errors in its procurement process within three months of their coming to light.[4]

In 2010 the NAO VfM report on major trauma centres in England found unacceptable variation in patient care. The report argued that 450 to 600 lives could be saved through better management.[5] The PAC was highly critical of the Department for Transport's progress on the Thameslink infrastructure project, highlighting disjointed franchising amid weaknesses in the department's capacity to deliver. It recommended new long-term investment strategies for transport; future evaluation of funding options should be based on full understanding of the costs, risks and rewards of each option.[6] Performance auditing can offer a 'big picture view' of an organization, a missing ingredient in the audit of the banks, the House of Commons Treasury Committee found.[7]

Of course performance audit and inspection may themselves fail. A plethora of audits and inspections did not find the serious failings at Mid Staffordshire NHS Foundation Trust for over a decade and it took a whistleblower to bring its performance into the public domain. This shows that performance audit is no panacea and is not guaranteed to uncover all weaknesses and failures. Rather, it exists within a more complex environment that embraces good governance and performance measurement. There are always lessons to be learnt to ensure that performance audit is carried out in the most appropriate way.

One challenge in requiring companies that provide significant public services to undergo performance audit is how the UK Parliament is involved. The NAO's resources are being stretched as it takes on additional responsibilities for local government. The workload of the PAC may also be increased as recent changes to the structure of health and education could result in individual health trusts or academy schools becoming accountable to it. Given that the PAC receives around 60 VfM reports a year, it has little scope to take on extra work. Changes might be needed to the parliamentary machinery for effective oversight and scrutiny, as discussed in the essay by Steve Bundred.

The private sector is now heavily involved in delivering public services in the UK, but its accountability is sub-standard. If we want to better manage service failure risks and boost public trust then accountability and transparency need strengthening. Extending performance audit to companies is one way. It makes little sense that relatively small public bodies may be subjected to the full force of public performance audit while much larger private firms are not. (The 'big four' outsourcing firms, Atos, Capita, G4S and Serco receive public funding of more than £4bn between them.[8]) Performance audit can help to provide parliaments and citizens with independent assurance that public services are delivered by the private sector efficiently and effectively.

3. House of Commons, *24th Report of the Public Accounts Committee, The Rural Broadband Project*, volume 11, September 2013, <http://www.publications.parliament.uk/pa/cm201314/cmselect/cmpubacc/474/47402.htm>.

4. NAO, *Annual Report*, 2013, <http://www.nao.org.uk/wp-content/uploads/2013/05/ANNUAL-REPORT-2013_WEB-1.pdf>.

5. NAO, *Annual Report*, 2010, <http://www.nao.org.uk/wp-content/uploads/2010/06/NAO_Annual_Report_2010.pdf>.

6. House of Commons, *26th Report of the Public Accounts Committee, Progress in Delivering the Thameslink Programme*, October 2013, <http://www.publications.parliament.uk/pa/cm201314/cmselect/cmpubacc/296/29602.htm>.

7. House of Commons, *9th Report of the Treasury Committee: Banking Crisis: Reforming Corporate Governance and Pay in the City*, May 2009, <http://www.publications.parliament.uk/pa/cm200809/cmselect/cmtreasy/519/519.pdf>.

8. NAO (2013), ibid, page 21.

John Doyle

Auditor general of Victoria, Australia

When the Colony of Victoria was proclaimed in 1851 one of the first senior appointments was of an auditor general. Fifty years later, one of the first acts of the newly federated Commonwealth Government of Australia established the office of the federal auditor general. These functions continue to this day, vital and relevant as ever, as demonstrated by the public's fierce opposition whenever parliamentary auditors' powers or position are under threat.

The main role of parliament-appointed auditors is to give elected members assurance on the financial integrity of the state. How this is done has evolved over time. What was once literally a check of every financial transaction of the state is now an audit of accounts in accordance with generally accepted standards (an attest or external audit).

But audit work can do much more. Today's parliamentary auditor goes beyond the basic mandate and seeks to add value by offering a broader audit service.

Auditors do a lot more than offer assurance. They collect information that can be used to highlight risks and trends, identify opportunities for improved performance, and provide examples of better practice. Often the audit office is the only place where all this information is held for every public body across a sector.

Modern parliaments want evidence and advice from an authoritative, independent source, and government agencies look to the auditor to add value to their work. You could call this broader role making a difference, promoting effective government or being a catalyst for continuous improvement. In such countries as Canada and the UK these wider aims are now part of the audit office's strategic vision. The Australian National Audit Office goes as far as directly seeking to 'improve public sector performance and accountability'.

One example of added value is when auditors report on the results of annual financial audits across a sector. This pulls together the information used to produce audit opinions for all organisations in a sector, offering analysis and commentary. In a sector-based report stakeholders can better understand its finances and sustainability, in an easily accessible format.

The Victorian Auditor-General produces a report on the annual financial report on the state. Required by legislation, this has come to include a chapter on the Victorian Government's significant projects and developments. These projects underpin growth and have a strong financial impact but are not necessarily included in the state's annual financial report. This report receives extensive media coverage in large part because of this additional information.

The International Auditing and Assurance Standards Board has recognised the appetite for more extensive contributions from auditors and is proposing a new standard requiring a commentary alongside the auditor's opinion on the financial statements. Such commentary could better communicate the results of the audit and improve readers' understanding of the financial statements.

It is clear from these examples that contemporary legislative auditors are finding opportunities to do more for their communities. However, it is equally clear that there is more that can be done. The audits themselves show this, as audits are not having the full impact possible.

Auditors often find themselves in the frustrating situation where a follow-up audit is conducted three to six years after the first yet nothing has been done, despite sufficient time for change having elapsed. Recommendations that were initially accepted have not been implemented and performance has not improved.

Why do agencies accept recommendations but then do nothing? Whatever the answer, the contemporary legislative auditor can and should do something about it. A first step is to work with the audited agency when developing recommendations to make sure they are feasible and appropriate, for example by seeing the likely limits to putting them into effect and working on them. Auditors should then seek explicit agreement to the recommendations and commitment to planned actions with timelines. This makes the agency accountable.

After say a year, agencies can be invited to comment on what they have done about each recommendation. Publishing their response closes the accountability loop. Limited or full scope follow-up audits can complement, in areas chosen on the basis of the agencies' self-assertions.

The importance of follow-up is now recognised at the highest levels. The power to follow up on an audit is part of the International Organization of Supreme Audit Institutions' principles of independence. It is a tool in the auditor's kit. The Office of the Auditor General of British Columbia in Canada reports every six months following up on its recommendations. As part of this process, agencies self-assess their progress. Since the Office began this in October 2008, 84 per cent of the auditor general's recommendations have been addressed and 15 per cent partially implemented.

Another frustration is seeing the same findings cropping up in audits of different agencies and showing up over several years. Auditors make comments on activities, processes and themes that have relevance beyond the immediate subject area. Yet government agencies are not sufficiently aware of their relevance to them, and may not be sufficiently aware of the legislative auditor's work.

So the auditor has both to communicate relevance and better connect stakeholders with audit. Sometimes it is simply a matter of promoting reports through presentations, media releases, and other channels. These activities may be secondary to the main audit work but may determine whether audit reports gain traction and response.

In both British Columbia and Victoria it is expected that assistant auditors-general and other senior staff take opportunities to make audit findings directly accessible to the widest possible audience. Where stakeholders are aware of reports but do not realise their potential or relevance, auditors need to advise on the value-add — provided of course they include this value-add information in reports in the first place.

Auditors must go beyond a narrow mandate and contribute more directly to improving public sector performance. There is an appetite for information from the legislative auditor as the key independent source of information about state finances. The opportunities are there: audit should be part of the dialogue on performance and accountability. Legislative auditors need to make themselves integral to it.

Developed with the assistance of Lucy Horan.

Lazaros S. Lazarou

Member of the European Court of Auditors, Luxembourg

In its public strategy 2013-2017 the European Court of Auditors (ECA) sets out these developments in the European Union. EU institutions are taking on a support role to member state activities outside the framework of the principal EU treaty. Examples include the involvement of the European Commission in the European Stability Mechanism. Measures taken within the framework of the treaty to achieve EU objectives (for example regulations and coordinated action by member states) may be paid for out of national budgets or will be imposed as costs to businesses and citizens. Other developments include constraints on the EU budget along with potential changes in sources of revenue. More use may be made of financial instruments other than grants (such as loans, guarantees and equity stakes). Financial management and reporting arrangements for EU spending for 2014 onwards are also changing.

In this context, the ECA will use its unique powers and perspective and the knowledge, expertise and partnerships it has built up over 35 years to contribute. It will help other parties in the EU accountability process to identify risks to EU accountability and facilitate their use of audit results; enhance its professionalism by contributing to and applying new audit standards and good practices; further streamline its processes for producing its reports and opinions; and improve its performance and accountability framework.

Within the first two years of the strategy period to 2017, the ECA plans to produce opinions and observations on public accountability and audit as well as on the risks to EU financial management – landscape reviews. It will update its annual report on the implementation of the EU budget from financial year 2014 on. Arrangements for monitoring external developments and managing relations with partners will be enhanced. The ECA will streamline its work programme and take steps to become a more efficient and effective knowledge-based organisation.

Up to now, EU budgeting has focused on the legality and regularity of spending, to the neglect of evaluating performance. But now the European Commission is considering how to focus on the results of spending and during the next financial framework to 2020 that will have implications for public management, audit and oversight arrangements.

Its plans include setting SMART (specific, measurable, accurate, relevant and timely) objectives, targets and how to manage to achieve these objectives and targets and to be accountable for them. Payments will be conditional: money will only be released once performance conditions and milestones are met.

Becoming more accountable for results, as the ECA President Vitor Caldeira said at the ECA's conference in September 2013, such a change 'would represent a major change of mind-set for public policy-makers, financial managers and auditors'.

In the ECA's view, these are steps in the right direction but there is a long way to go to get to better accountability for EU spending. Since the Lisbon Treaty came into force in 2009 the European Commission is required to evaluate results achieved as part of the sign off procedure for EU budget. The ECA does not think the first two such evaluation reports show that we yet have an effective tool for scrutinising spending.

The proposals before the Commission could bring more focus on results. However, in the ECA's view, opportunities have already been missed to clarify objectives, simplify programmes, link payments more closely to results, enhance monitoring and evaluation arrangements, and make internal control systems more output oriented.

Better financial management will need to be matched by developments in audit. To this end, the ECA and member state Supreme Audit Institutions (SAIs) called on the European Council in May 2013 to build a coherent public sector audit framework. The Commission has drawn on its own experience with the EU budget to launch accruals-based European Public Sector Accounting Standards (EPSAS) applicable to all public sector bodies.

The ECA Strategy raises questions about the sustainability of public finances, in relation to EU economic governance, the quality of national accounts, financial market regulation, employment, competitiveness, the single market, external trade and demographic change. In response it is pooling resources in a financial and economic governance project team and setting up a dedicated professional training programme.

The ECA will closely follow developments, in particular the new supervisory role of the European Central Bank and the single resolution mechanism and related funds. For inclusion in its annual work programmes for the years to come the ECA will consider performance audit proposals for policy areas affected by such global challenges as youth employment, micro-finance and public procurement.

Environment and climate change have implications for EU policies on agriculture, water, energy, transport and development. Here the ECA will consider performance audit proposals concerning water in the Danube basin and of the Baltic Sea region. Performance audit reports on biodiversity and on renewable energy are expected in 2014.

Since this essay was written in December 2013, the ECA is continuing to address the challenges from developments in the EU public sector environment. The ECA is committed to contributing effectively in strengthening EU democratic accountability, and building EU citizens' trust.

Marcine Waterman

Controller of Audit of the Audit Commission, England

Local public audit has a subtle relationship with public service improvement. The two are not unconnected, but equally there is a definite distinction to be made between them.

Audit can contribute to improvement. But auditors are not consultants or at least they are not acting as auditors if they do consultancy.

Consultants and inspectors make recommendations about service improvements. Public audit provides assurance or says clearly that assurance cannot be given. (Note that providing assurance is not the same as offering a guarantee, since the work underpinning an auditor's judgement is proportionate and risk-based rather than exhaustive.)

It's true that public audit has been expanding in scope. Assurance now extends beyond the annual accounts to wider financial management, to propriety, regularity, how to secure value for money and aspects of governance. But improvement remains the responsibility of councils and other local public bodies themselves.

Audit connects indirectly with service improvement, with two links in the chain. Audit encourages improvement in financial management, securing value for money, governance and other internal arrangements. Secondly, these affect services for users. If governance and financial management are lacking the council is less likely to be offering the public high quality services, so improvements in them are likely to translate into better services.

Audit is proportionate. It rests on materiality and is guided by risk, only reporting by exception. Effort can thus be concentrated on those public bodies that don't meet or are at risk of not meeting required standards.

Colloquially, audit works best in helping turn the abysmal into the acceptable, or keeping the acceptable from deteriorating.

Various mechanisms help do this. Here they are listed in rough order of significance:

- holding a mirror up to public bodies (especially lighting areas where organisations are not sufficiently self-aware)
- drawing attention to weaknesses in annual governance reports and annual audit letters and through the Audit Commission's national overview, *Auditing the Accounts*.[1] Resulting publicity plays out through the governance and in the public and political context of public bodies
- making statutory recommendations that internal arrangements be amended. These do not have the force of obligations, although they must be considered in public at a meeting of the full council or equivalent
- qualifying the accounts, which will guarantee being named in *Auditing the Accounts*
- making a report in the public interest
- seeking a court declaration that an item of account is unlawful.

The latter tools are used sparingly and only where the need is clear. Sometimes intervention is required but this goes beyond the boundaries of the auditor role. Either the Audit Commission or the Secretary of State for Communities and Local Government can insist that there should be a corporate governance inspection, and ultimately the Secretary of State can take direct action. Such intervention takes place only when it is clear that corporate governance problems are having a detrimental impact on services.

Good quality financial information is the province of the auditor. Organisations that do not prepare robust financial plans or monitor costs or spend properly against budgets are unlikely to achieve the outcomes they seek (or only at a higher cost, reducing the resources available elsewhere). Services are likely to be inefficient or unproductive if organisations do not understand their costs and impacts, do not compare how they deliver services against other bodies, or do not plan. Organisations risk incurring higher costs, delivering worse services and finding that their finances are unsustainable if their leadership team is not paying attention to both today's and tomorrow's position, if they do not follow best practice in procurement or contract management, or if they do not control against fraud.

These are all areas highlighted by auditors in public interest reports over the last decade. Taking unplanned actions in the middle of the year to stay within their budget (such as sudden shrinkage in spending or cuts in staff) is likely to be disruptive, exacerbating the

1. Audit Commission, *Auditing the Accounts: Local Government Bodies*, <http://www.audit-commission.gov.uk/audit-regime/codes-of-audit-practice/auditing-the-accounts/>.

effect of planned budget reductions. In our report *Tough Times 2013*[2] we found some 29 per cent of councils needed to take one or more unplanned actions during 2012/13 to stay within budget.

As councils and other local public bodies have adapted to much more constrained funding, the Audit Commission has been gathering information to allow us to paint a national picture. We have published three reports on councils' financial resilience since 2011.

We were able to gather this information through our relationship with auditors and our contractual ability to request information to support our functions. We made changes to the Code of Audit Practice and associated guidance that streamlined auditors' work: they can now answer key questions about financial resilience, based on their routine examinations. With no additional work being required, no additional audit fees needed to be charged.

Our report Tough Times 2013 has a positive message about council financial management, despite falling income levels and rising demand for some services. In the view of auditors, 89 per cent of England's councils experienced no significant difficulties in delivering the budgets they set for 2012/13 and a similar proportion are well placed to deliver their budgets in 2013/14.

But looking forward the picture is less certain. Auditors had concerns about the medium-term financial prospects of 36 per cent of councils. They worried whether councils are anticipating the scale of savings needed and regretted the absence of plans to address known or expected budget gaps. They pointed to risks associated with plans to reconfigure service delivery and queried councils' ability to manage increasing cost pressures.

Yet councils that had planned and adapted in response to financial challenges from 2010/11 to 2013/14 were also those more likely to give auditors cause for concern. Councils that have already responded to financial challenges may now have fewer options for making additional savings.

However, serious problems are not inevitable. Councils can and will continue to adapt. Where conventional strategies can no longer be relied on to deliver savings, councils will need to develop new approaches to public service delivery that rely less on funding from government. Undoubtedly they face risks as they do so. The Audit Commission is expected to close in March 2015 so it will be for the government and others to find alternative ways to draw on auditors' insights into councils' financial resilience and remain vigilant for signs of financial stress.

2. Audit Commission, *Tough Times 2013*, November 2013, <http://www.audit-commission.gov.uk/2013/11/toughtimes2013/>.

Huw Vaughan Thomas

Auditor general of Wales

There's a distinctly Welsh flavour to what public audit adds to public services in Wales. They benefit from consistency in our audit arrangements. Since 2005, the ambit of the auditor general for Wales has taken in all devolved public spending - virtually the entire Welsh public sector. With the passing of the Public Audit Wales Act 2013, I also become the direct auditor of councils, no longer just appointing their auditors.

As a result, the Wales Audit Office is in a strong position to support improvement and to promote assurance, able to follow the public pound across the tiers of government and to audit collaborative arrangements across sectors. More could and should be done to make the audit regimes across sectors more coherent. However in Wales we now have a good starting point. Wales' collaborative public service ethos is entirely complemented by arrangements for public audit.

So public audit is very much part of the whole. In and across sectors it is through our connectedness and engagement with policy makers, delivery bodies, regulators and other influencers that – remaining independent -- we can make the greatest impact.

The Welsh Government is reviewing audit, inspection and regulation and I hope that this will improve understanding of roles and responsibilities. While regulatory, audit and inspection frameworks in Wales could, as elsewhere, benefit from greater legislative coherence, I am pleased by our close working relationships. The public benefits from public audit engaging with inspectors and regulators. It strengthens our connectedness to service users and increases the impact of common improvement themes. A collaborative approach to external review for public bodies helps overcome inertia and resistance to change and generally increases our contribution to improving the lives of people in Wales.

In the same vein, we are working collaboratively to establish the Wales Audit Office as a means of sharing learning across the Welsh public sector, and with success. Our good practice exchange, conferences and seminars build on our own knowledge and experience from across our financial and performance audit work programmes. We also draw on the innovations and transformative practice of others to add value, offering shared learning projects on a regular basis.

This emphasis is helping us overcome the outmoded view that auditors always discourage risk-taking. Given the scale of challenges we face in Wales, where the public sector is proportionately larger than in England, I do not think services can be sustained without well-managed risk taking. I am keen to provide audit commentary that informs policy and decision-makers in a timely way, at planning, delivery and review stages. I do not want to see public audit acting as an unhelpful brake on transformation, because in many instances the status quo is itself a dangerous option.

However, assurance remains the bedrock of the support we offer public bodies and citizens. Scandal and loss of confidence undermine public bodies' ability to transform and devise new models of service. Good governance, accountability and transparency are a cornerstone of the Welsh Government's approach to improving public services. Yet I have recently published a number of reports highlighting weaknesses in their governance. Common features include lack of clarity in strategic direction, roles and responsibilities; weaknesses in scrutiny and challenge; failures to keep adequate records of proceedings and take account of personal interests; and failures to exercise adequate financial control. Further public interest reports recently exposed continued failings in governance, especially relating to chief officer pay.

In the Wales Audit Office strategy[1] for 2013–2016, we outlined our intention to provide further assurance on the effectiveness of governance arrangements. This continuing work includes closer examination of governance statements, looking for consistency with financial statements and other information derived from our audit findings. We will continue reporting on matters that might not be material to the audit opinion but are of public interest. Public audit needs to position itself carefully to keep pace with public concern. Auditors have sometimes failed to appreciate the importance of the damage to public confidence from the misuse of even small sums of public money .

Wales uses specific grant funding more than other parts of the UK to benefit people and communities in need. Last year we certified 33 local government schemes, worth over £3bn, involving around 750 individual claims. Our report

1. http://www.wao.gov.uk/assets/englishdocuments/Strategy_report_Final_english.pdf

Grants Management in Wales,[2] published in November 2011, found many of these schemes are poorly managed. Lessons are rarely learned and funders frequently fail to tackle recipients' poor performance. We held a special briefing for 40 senior managers at the Welsh Government and presented our findings at their autumn 2012 Grants Summit. We continue to support the Welsh Government's improvement project board for grants management and to exchange information on good practice with its centre of excellence team.

I am consulting on revisions to my *Code of Audit Practice*. They aim to increase audit emphasis on standards in public life and ensure that we continue reporting in the public interest. Such changes will support public bodies in making stronger arrangements for preventing and detecting fraud, bribery and corruption.

There are over 730 town and community councils in Wales, which together spend over £40m each year. Most of these are subject to a limited assurance audit framework, which does not require a full audit in accordance with professional standards. Instead, it provides assurance proportionate to the sums of money they manage. Nonetheless, auditors issued qualified opinions on 2011/12 accounts at 130 (nearly one in five) of these small councils.[3] This and other audit work since 2009 confirm that the standard of financial management and governance in local councils in Wales is variable and weaker than it should be. To help councils improve financial management and governance, from 2014/15 I will be modifying their audit arrangements. Each audit will see more focus on governance and public reporting. We will extend review of the annual governance statement, focusing on a list of thematic areas.

Audit and scrutiny committees are key. One of the first principles of effective scrutiny is that it should be rooted in understanding service demand, informed by clear objectives and timely and robust financial and performance data. Through structured assessments in health and annual council improvement reports, we have built a platform for annual appraisal of the capacity of organisations to govern and improve their services.

We recently held a conference on scrutiny with partners including Welsh Government and the Welsh Local Government Association. It underlined our strong conviction that audit must ally with all those responsible for scrutiny. Clear understanding of the role, skilful questioning and professional scepticism need to pervade our public bodies. Auditors are well equipped to help and support this development and head off at the pass the weaknesses that I have found it necessary to report.

Wales is a small country with big ambitions for its people. It has hurdles to leap. But our team ethos is strong. Our evidence is that public audit is a trusted, respected and independent partner in delivering shared national objectives and in supporting improvement in our public bodies.

2. http://www.wao.gov.uk/assets/englishdocuments/Grants_Mangement_English.pdf

3. http://www.wao.gov.uk/assets/englishdocuments/Community_Councils_Report_2013_English.pdf

Caroline Gardner

Auditor general of Scotland

If you question the impact of public finances and stewardship on the lives of ordinary people, consider Detroit. It is a striking example of the failure of public financial management and scrutiny. There 40 per cent of streetlights don't work. And in a city that already has the highest crime rate of major US cities, fewer than 10 per cent of crimes are solved.

If we ever doubted the importance of independent scrutiny and assurance, and the impact it can have on people's lives, Detroit should strip that away. In July 2013 it became the largest US city ever to file for bankruptcy, owing $18.5 bn to creditors. Five months later that application was approved, along with the right to cut city pension benefits.

How did Detroit get to the position where pensioners may be impoverished and street lights don't work? The short answer is that bad governance and poor financial stewardship have been allowed to go unchecked for decades, and when the global financial crisis hit, the city had no chance. This is what comes from indifference to bad management and corruption, and a lack of insight or understanding of the financial position.

Detroit is far from unique. In Europe we have seen public services and living standards collapsing in countries such as Spain and Greece. Economic performance, economic opportunity and investor confidence have tumbled as accountability, trust and confidence in government reached rock bottom. And in Greece in particular we've seen the risk of a much more wide-ranging collapse of stability, with economic crisis giving way to a social crisis.

Consistent themes emerge. The first is how well the financial position is understood. The second is appreciation of the implications of long-term spending commitments. The third is the sustainability of public services in the face of rising demands and tightening budgets. And underpinning all this is the public's confidence in the management of public finances.

Public audit has a crucial role to play, offering scrutiny, assurance and commentary.

The purpose of audit is to protect an organisation's stakeholders. In the case of public services, that's all of us. We are the people who use public services, the taxpayers who pay for them, and the citizens who make up the society to which they contribute. Public audit's three principles – independence, wider scope and public reporting – reflect the importance of ensuring that public money is used well.

Let's look at how these play out in Scotland. Independence requirements for public audit are tighter than those for company audits. As auditor general, I appoint the auditors of public bodies from the staff of Audit Scotland and from a panel of private accounting firms, rather than public bodies appointing their own auditors. I set the scope of the audit work, and there are strict limits on the non-audit services that auditors can provide.

Audit Scotland produces over 200 reports on the annual audits of each individual public body. We also publish about 25 performance audits a year, where we examine a public service or programme of spending in detail. We look at the money but also issues of quality, management and sustainability. Audits moreover are reported in public, with follow-up through the Scottish Parliament's Public Audit Committee, and we do a significant amount of media work.

But for audit to truly fulfil its role in improving the management and stewardship of public finances and enhancing confidence and trust, we need to consider its impact.

Public audit starts with deterring fraud and corruption. Many developing nations are at this level. I have had personal experience of this: before being appointed as auditor general for Scotland, I spent a year as chief financial officer to the Turks and Caicos Islands, a small British Overseas Territory in the Caribbean. Due to corruption at the highest levels of the islands' government, and a looming financial crisis, the UK suspended the country's self-government and re-imposed direct rule. I was appointed to identify the true scale of the financial problems and to find a sustainable solution. We made good progress, but it was the most challenging 12 months of my career so far. Audit should deter corruption and fraud, prevent problems from recurring, and promote and support a culture of honesty and openness; all of which had failed in Turks and Caicos. My colleague, Pamela Monroe-Ellis, auditor general of the Government of Jamaica, writes about audit and corruption in her interesting essay.

Next, audit should provide assurance on stewardship and reporting and enhance governance, efficiency and effectiveness. Crucial to this is good public sector financial reporting. By 'good', I mean it is comprehensive, transparent and reliable. This helps decision-making, by providing evidence about the long-term consequences of different options. It ensures public bodies can be held to account for their decisions and helps encourage confidence, so public and investors trust in the decisions of government.

A combination of circumstances in Scotland makes this especially important. After a decade of growth until 2008, public finances are now very tight and this will continue for at least another five years. Scotland will soon have more fiscal autonomy. The Scotland Act, coming into effect next year, gives the parliament more control over taxation – bringing with it the prospect of more volatile revenues – and some limited borrowing powers. And in September we have referendum to determine whether Scotland becomes independent. Whatever the outcome, the need to demonstrate financial stability and build investor confidence on the bond markets will grow.

The Scottish Government recognises this. Finance Secretary John Swinney has repeatedly stressed its commitment to financial responsibility. However, the global financial crisis revealed problems with many governments' understanding and reporting of their position; many had substantially under-estimated the risks. The International Monetary Fund recently said that about a quarter of the increase in government debt in the ten countries most affected by the crisis was due to governments' 'inadequate understanding' of their own finances and had nothing to do with collapsing banks or other economic developments.

Public financial management in Scotland is starting from a good base. Around 200 public bodies in Scotland spend about £40 bn a year, and it's relatively rare that I have to qualify their accounts or report them to the parliament.

There has been a significant increase in the breadth of financial and performance reporting. The accounts of public bodies are prepared on the basis of International Financial Reporting Standards; they contain governance statements that provide an increasing amount of information about risks and how they are managed; and the Scottish Government's Scotland Performs website puts a good deal of performance information into the public domain.

But there is room for improvement, most of all in relation to transparency. For example, there is no Scottish equivalent to the Whole of Government Accounts for the UK, pulling together public sector assets and liabilities into a single picture, letting us see the costs and risks associated with them, changes over time, and other information needed for good decision-making and accountability.

So we lack a comprehensive picture of the assets and liabilities of the Scottish public sector. That is important. The reason Spain got into so much difficulty was not because the Madrid Government itself was heavily indebted, but because regional governments had built up a high level of debt without the centre being aware. When the financial crisis cut tax receipts and pushed up interest rates, they couldn't service those financial commitments and the central government had to step in.

I do not suggest that Scotland is in a similar position, but it is important to have this fuller picture to help avoid just such a scenario.

The global financial crisis aside, other pressures include growing demand for public services and rising expectations from the public, stemming from Scotland's deep-rooted social problems and our demographics. Current models of service delivery are not sustainable. Changes to service provision must be underpinned by long-term financial planning.

If audit drives better reporting then we can see more clearly where public finances are heading. The New Zealand Government produces an investment statement in its suite of financial reports. This document looks over the public sector's assets and liabilities, at how they have changed over time, and how they will change over the subsequent five years. It explains how new investment is funded, and how the government is working to improve asset management. The aim is better public understanding of government spending and risk. One job of audit is to identify and promote good practice, and I have cited this New Zealand statement as a model for the Scottish Government.

At its best, strong, public audit has six qualities.

It promotes transparency. This includes a full picture of assets and liabilities, clarifying more complex areas, such as how surpluses are dealt with, and investment in public enterprises and infrastructure. It also means being clearer about pensions and other longer-term liabilities.

It helps government to be clearer about the long-term consequences of decisions. In Scotland, the government has relied heavily on public-private partnerships to fund major capital projects. But it has not always reported the full financial commitment, nor demonstrated why it believes this to be affordable. As auditor general, I have called on it to do so.

Audit identifies opportunities for improvement. In particular, public audit can view the whole of the public sector. Audit Scotland is able to comment on and question the quality of longer-term financial planning and value for money of public services, to try and ensure they are sustainable in the future.

It provides comprehensive information to underpin financial and economic decision-making; for example, looking at long-term trends and borrowing commitments.

It can provide independent evidence to support public debate about the choices ahead on both tax and spend, involvement those who might gain from change as well as those who stand to lose.

It can enable politicians and the people they represent to hold the executive to account for its fiscal performance and use of public money, with the long term effect of increasing confidence in public services and trust in government.

If auditors worldwide do that, we will be performing a vital service for our citizens and even helping to prevent another Detroit.

Pamela Monroe-Ellis

Auditor general of Jamaica

In 2008, after the collapse of Lehman Brothers, world leaders came together to take collective action to stave off global decline in economic activity and trade. We could view this as the beginning of a very active phase for the G-20 – the world's 20 largest economies, accounting for over 80 percent of global trade agreeing that coordinated effort was needed to avoid crisis.

Since then, at various summits the G-20 has focused on establishing a framework of policies to promote growth and create jobs. This effort (summarized at the 2009 Pittsburg summit) has spanned fiscal stimulus, strengthening financial systems, and promoting social inclusion. Importantly, robust public financial management (PFM) systems are seen as fostering trust of citizens and inspiring investors' confidence.

PFM means using information, processes, and rules to integrate how public funds are budgeted, spent and managed.[1] Sound PFM ensures accountability and efficiency. It spans medium -term budgeting and fiscal responsibility frameworks.

It asks whether the budget is realistic and implemented as intended? Are risks to the fiscal position effectively monitored and managed? Are controls in place for spending, including procurement? Are records on government operations maintained in ways that help decision-making and allow for proper reporting and auditing? Does the system allow for transparency in and proper scrutiny of government operations?

PFM is key to addressing the reasons debt became unsustainable, and by supporting PFM reforms the accounting profession can help mitigate the impact of making debt sustainable.

Unsustainable debt can bring lower growth, high debt service costs, low investor confidence and dealing with these consequences is particularly difficult in developing countries. They may lack capacity to undertake structural reforms, both human and financial; lack a sense of urgency or willingness on the part of those charged with governance; citizens may fail to appreciate what constitutes unethical behaviour, poor governance, and inadequate PFM.

The global financial crisis highlighted the simple fact that public resources were and still are being squandered by governments in the absence of robust PFM systems. In response to it, states rushed to demonstrate their commitment to prudent financial management by amending legislation and adopting (sometimes wholesale) governance best practices.

However, we as accountants know that attaining economic growth the overarching objective of governments requires a multidimensional holistic policy approach. Boosting economic performance requires an enabling economic environment (economic efficiency; macroeconomic, financial, and political stability; human capital and technology; appropriate institutional capacity); adequate rule of law and regulatory environment; and strong governance that is transparent and where the public have 'voice' and trust in government.

Impediments to sustainable growth need to be addressed in a balanced way. However, in a time of crisis, strengthening governance is not considered a priority. Instead extending concessionary waivers to dominant or deemed strategic sectors or the building of infrastructure (such as roads) will be a high priority, based on the notion that they enhance growth prospects and create jobs. Even when improving governance is a priority, countries may go for the wholesale adoption of international best practice, without due regard to their specific needs or circumstances. As a result the reforms exist on paper, but are not practised.

We note that in 2010 the G20 called on international accounting bodies to redouble their efforts to achieve a single set of high quality, global accounting standards. The UN Conference on Trade and Development (UNCTAD) has been developing a framework to assist member countries build capacity for high quality corporate reporting. But whether governments are willingly adopting an accrual-based accounting standard is debatable. Governments may adopt international best practice as a pre-condition to obtaining aid rather than based on their own assessment of need.

It is generally acknowledged that we operate in a global environment of rampant corruption though corruption threatens the integrity of markets, undermines fair competition, distorts resource allocation, destroys public trust, increases the cost of capital and undermines the rule of law. Unfortunately, corruption occurs

1. M. Cangiano, T. Curristine and M. Lazare, *Public Financial Management and its Emerging Architecture*, International Monetary Fund, 2013.

despite the plethora of documented corporate governance guidelines and codes of conduct, which are all aimed at curbing this monster.

Although public sector auditors should plan audits to reasonably identify corruption or opportunities for corruption, these efforts should be supported with strong enforcement of effective anti-bribery rules, asset recovery procedures, and the prevention of access to global financial systems.

Another factor is citizens and their unwillingness to embrace good governance. In many countries corruption is facilitated by what are considered to be societal norms. Fighting corruption may be challenged by the populace, who don't appreciate what constitutes a corrupt or unethical act. Auditors General must use audit to engage and educate the public. Advocacy of governance reform by the accountancy profession is not sufficient – civil society groups and leaders in society should accept their responsibility to increase citizens' awareness.

The implications of global financial adjustment (including calls to improve debt sustainability and strengthen public sector balance sheets) are wide-ranging. But adjustment should take into account country-specific circumstances, transparency and comparability of public sector reporting, financial risks related to high public debt, and ability to mobilize strong advocacy of civil society groups towards a collective effort of change.

The profession needs to be equipped to deliver better broad-based auditing advice. Inefficiency in government operations and the misallocation of resources makes the case for broadening the scope of public audit. Supreme Audit Institutions (SAIs) must determine that government gets value for every dollar, through value-for-money and performance audits. Governments and other stakeholders are not only interested in what has gone wrong, but how problems may be rectified and prevented in future. The auditor's focus should not be only on historical data but also on impending threats, including on the financial viability of public budgets, social security (health and pension) systems, or environmental sustainability.

The auditor must understand the changing environment, the needs of the citizenry, and be up to the challenges that confront us. Professional qualification and training must be robust, for example, increased training in fiscal sustainability and risk management analysis and mitigation.

SAIs should collaborate more with the broader auditing profession both to integrate experience across countries and exchanges between universities and other higher education institutions and practising accountants/auditors. Given that a strong audit function is critical to strong PFM, it is imperative that the public sector collaborate with them to engender a good foundation for those wanting to join the service. Often overlooked in developing countries is the need for the public sector to employ the brightest and the best in audit, as an indispensable mechanism to drive an effective PFM system.

The need for robust PFM is indisputable. Nonetheless, we must recognize the speed at which they can be built and their format will vary across jurisdictions based on economic stability, social and cultural factors, and the will of those charged with governance.

Whatever the local circumstances, the role of the accountancy profession is significant. Accountants not only possess the academic training, but discipline through our exposure and training in ethical conduct and governance to understand, appreciate, and be receptive to PFM reform. The implications of failing to embrace improved PFM could be dire. The profession, therefore, must be advocates of PFM, utilising our soap box moments. Are we using every opportunity to contribute to the improvement of the public sector balance sheet by enunciating the necessity of PFM?

Jigmi Rinzin

Parliamentarian, Bhutan

Transparency International's index of perception of corruption for 2013 puts Bhutan in 31st position among 177 nations. That's an improvement from 2012, when the country was 33rd. Among South Asian nations, Bhutan is the cleanest and ranks 6th in the Asia Pacific region after Japan, Hong Kong, Australia, Singapore and New Zealand.

For a new democracy, that record is impressive. It owes something to our arrangements for audit and legislative accountability and we are proud to have been instrumental in the formation of the first Asian association of parliamentary public accounts committees.

Bhutan's Public Accounts Committee (PAC) serves to reinforce our democratic culture by reiterating on principles of good governance, accountability, transparency and public debate. Live broadcasting of PAC deliberations increases public confidence in the system and in legislative checks and balances. The public's rating of the PAC is further enhanced on the conjecture that every recommendation is non-partisan. The electorates and citizens at large believe in our neutrality in PAC.

Appointed on a bipartisan basis from both houses of Bhutan's parliament, the PAC members are chosen on the basis of their reputation for their integrity. They review annual audit reports and performance audit reports from the Auditor General. The PAC exercises financial oversight and holds the executive accountable for prudent and transparent use of public money. It can through parliamentary order direct the Royal Audit Authority (RAA) to conduct audits.

The PAC is seen to add value to the audit reports through scrutiny of government performance. It reviews them, questions witnesses, examines facts and figures, gathers and sifts evidence, makes recommendations and conducts follow-up on their implementation. The PAC and RAA exchange knowledge and skills – the latter needs the former to ensure implementation of audit recommendations by the government and the PAC in turn relies on audit reports to assess the integrity of spending.

Administrative action is taken against officials named in the audit reports and financial penalties levied on officials. In 2010 on the PAC's recommendation the parliament imposed a 24 per cent penal rate of interest on overdue outstanding advances and recoverable amounts, pushing departments to recover the money: proceeds rose threefold in cash terms between 2008 and 2012.

Parliamentary discussion of PAC reports increases public awareness of executive performance and in turn exerts additional pressure on the executive. Some evidence comes from the gap between budgeted capital spending and outturn – it fell from over a third in 2008-09 to under a fifth in 2011-12 – after the PAC had recommended ways of avoiding underspend, emphasising how underachieving annual development plans penalised service users and wasted national resources. Underutilisation of the capital budget was attributed to over lengthy procurement, inadequate technical capacity in delivery agencies and bureaucratic formalities in the release of money from finance ministry. Remedies involved coordination between agencies – the budget department for release of funds, the university and education ministry to recruit graduates from colleges, and delivery departments to cut procurement formalities.

The timetable for presenting PAC findings to joint sittings of the two houses of Bhutan's parliament puts departments and executive agencies under pressure to deliver improvements, on pain of reprimand. Officials identified for unscrupulous handling of government money are named on a 'negative list' and as a result can be stopped from moving up grades and barred from attending training abroad. Clearance from the RAA is also needed to become eligible for retirement benefits. In elections, candidates are required to submit an audit clearance to the Election Commission – as a means of strengthening the ethos of probity among senior public officials and promoting public faith in the system.

Bhutan has achieved a lot in a little time and the challenge now is to sustain momentum in combating corruption and consolidating democratic culture in the country. Parliament through the PAC must go beyond financial scrutiny to assure every programme initiated by the government brings maximum value for money.

Steve Bundred

Strategic adviser, Deloitte LLP, UK

Some former Whitehall mandarins have become fond of telling us that the UK civil service is the envy of the world. They argue that our tradition of permanent, politically impartial officials willing to speak truth unto power is hugely admired – even if not frequently emulated. But the notion that we are better governed than competitor nations is severely challenged in two highly readable books published in 2013.

The first, *Conundrum*,[1] was written by Richard Bacon MP, a long-serving member of the House of Commons Public Accounts Committee (PAC), and Daily Telegraph journalist Christopher Hope. The second, *The Blunders of our Governments*,[2] is the work of two distinguished academics, Anthony King of the University of Essex and Sir Ivor Crewe, master of University College, Oxford. Both take the same approach. By examining a catalogue of ill-conceived policies or botched implementations they ask what the failures have in common, and what needs to change. The stories they tell are at the same time jaw-dropping, side-splitting and deeply moving; it is not just taxpayers but individuals and their families who have been the victims of these errors.

Examples on which the two sets of authors have drawn include the incompetent Child Support Agency; schools that couldn't open because of delays in Criminal Records Bureau checks; holidays that had to be abandoned because of backlogs at the Passport Agency; and students who began university life suffering near starvation because the Student Loans Company couldn't process their applications in time. They also include the poll tax; Individual Learning Accounts; rural payments; tax credits; the botched, and ultimately abandoned, NHS programme for IT; the aborted tendering of the West Coast rail franchise; the Private Finance Initiative for London Underground maintenance; the short-lived Assets Recovery Agency; and our entry into, and subsequent humiliating exit from, the Exchange Rate Mechanism of the European Union. There are others. An even longer list of candidates had to be overlooked to keep the two books to a manageable length.

But while analysis of what went wrong in each instance is lucid and compelling, it is also incomplete. For neither fully explains why the system failed to work, which included departmental and agency Accounting Officers holding a personal duty to account for spending, Parliamentary scrutiny and independent audit, all of them supposed to prevent blunders of the kind described (or at least the same mistakes being repeated time and time again). This is a particularly striking omission in the case of Bacon and Hope as their study draws extensively on the work of the National Audit Office (NAO), its reports to the PAC and the deliberations of the committee in which Bacon has participated. Conundrum provides ample evidence that the NAO invariably hits the nail on the head and that the PAC is fearless in drawing on it to highlight failings and name the guilty men (more rarely women). But it fails to explain why nothing ever improves as a consequence.

The sad truth, which all four authors fail to address, is that weaknesses exist in each link of the chain of responsibility and accountability for the management of UK public expenditure.

Often, the core of the problem is inadequacies in the policy itself. Ministers are entitled to pursue policies many of us might not agree with. Civil servants are rightly cautious about challenging the intent of ministers – even when their policies are based not on evidence but on prejudice or whim. But many flawed policy initiatives originate not from ministers but from officials, especially in the case of over-ambitious IT projects or ill-conceived defence procurements. So not a lot of truth gets spoken unto power.

But if Accounting Officers fail to make their voices heard when the policies are foolish to begin with, they ought nevertheless to be frank about the costs and difficulties of implementing them. Yet a recurring feature of NAO reports on flawed projects is that they were based on over-optimistic business plans, relying on questionable assumptions. When things start to go wrong the usual response is to throw more money at the problem, with a series of inadequate patch-ups rather than re-visiting the original policy or plan.

So how do we improve financial management and policy advice in government and what role does audit have to play? Debate has always been contentious on whether auditors should stray beyond hindsight (hopefully offering insight) into exercises in foresight. But must we always wait until after car crashes before discovering that the drivers didn't know where they were going?

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1. Bacon, R and Hope, C, *Conundrum: Why Every Government Gets Things Wrong and What We Can Do About It*, Biteback Publishing, 2013.

2. King, A and Crewe, I, *The Blunders of Our Governments*, Oneworld Publications, 2013.

The West Coast rail franchise is a case in point. The NAO found that the people in charge had little experience; that the evaluation criteria on which the tendering process rested were flawed, so were ignored once tenders had been opened; that calculations made during the process were simply wrong; and that legal advice had not been listened to. Yet should we have had to wait until after the successful legal challenge by Virgin's Sir Richard Branson to discover this? Might it not have been better for all concerned if auditors had commented on the tendering process before ministers announced the award of the contracts? Why aren't the business cases and/or the procurement processes for high value or contentious expenditure projects routinely subject to audit scrutiny at a much earlier stage, and more regularly thereafter throughout the duration of the project? And what can be done to improve the capability of officials responsible for handling billions of pounds of public money?

At the pinnacle of the accountability process is parliament itself and its select committees. Both the Public Administration Select Committee (PASC) and the PAC have spoken loudly and frequently about the need to improve financial management, project management and procurement skills in the civil service, but to little avail. So why aren't these committees having a greater impact?

Appearance at the PAC in particular is typically regarded by senior civil servants as akin to a difficult away match. Especially under the chair since 2010, Margaret Hodge MP, the committee's hard-hitting reports invariably command substantial media attention. But does anything change as a result of them? For all the sound and fury, once officials have returned to their offices, do they ever feel compelled to behave differently? By the time the PAC denounces a government policy initiative it has normally already been abandoned and the sums involved already wasted. But the problem it was intended to solve will often still be present, so another equally wasteful project will frequently follow soon afterwards from the same department. What, therefore, can be done to increase the effectiveness of the PAC – not to be confused with its profile?

This is a question which has been taxing the House of Commons Liaison Committee, comprising all the select committee chairs, and it launched an inquiry into select committee effectiveness, resources and powers. But it has been reluctant to acknowledge that without substantial additional staffing these committees will continue to be wolves howling against the wind. Its report in 2012, for example, recommended a modest increase in media support, and — for the longer term — argued for funding for additional staff in chairs' offices. 'We recognise that now is not a good time to argue for increased resources.' But nor is it a good time to allow government waste of taxpayers' money to continue unchecked.

The PAC does at least receive substantial support from the NAO. But the NAO work programme is, for very good reasons, determined by the comptroller and auditor general (C&AG), not directed by the committee. So although it meets twice a week when Parliament is in session, its agenda is driven by the stream of NAO reports presented to it on matters as varied as nuclear decommissioning or the cost of phoning a Whitehall department. And as the PAC dos not have any separate resource it cannot initiate its own investigations or studies to sit alongside those of the C&AG. It cannot seek expert legal or professional advice to help make its questioning more forensic or to help direct its inquiries, even on complex issues such as the taxation of multinational companies. It cannot support the civil service reform programme by offering training to civil servants on recurring lessons to be learned from its work. And a lack of available time and resources make it difficult for the committee to follow an issue through until it is satisfied that change is happening.

It is also unable to insist that a minister should answer directly to the Commons in response to the committee's concerns. Although there is a formal system for monitoring the government response to its recommendations, this response usually takes the form of an anodyne Treasury minute received some months later. And if recommendations are accepted but not then implemented, or if the guilty walk free, there is very little the committee can do. In the words of the Arab proverb "the dogs may bark, but the caravan moves on".

Although the Commons Liaison Committee has attempted to make comparisons with similar bodies in other legislatures, the differences are such that it is difficult to get at meaningful figures. But it is hard to imagine, for example, the chair of a US congressional committee tolerating little support beyond the work of a committee clerk and access to a press officer.

In our system of government, parliament is sovereign and at the pinnacle of the system of accountability for the use of public money is the role of the PAC. So if parliament doesn't resource it properly, it's not surprising that we're not better governed.

James Ralston

Comptroller general of Canada

What role does audit play in improving public business? An answer comes from changes to the internal audit function inside Canadian government over the past few years.

The Office of the Comptroller General of Canada is a distinct entity within the Treasury Board of Canada Secretariat. The Comptroller General is responsible for providing functional direction and assurance for financial management and internal audit. Recently, I have also taken on responsibility for investment planning, procurement, project management and the management of real property and materiel across the federal government.

The Government of Canada introduced a new internal audit policy in 2006 that applies to over 100 federal departments, both large and small.

The policy has brought improvements in a number of areas. For example, it requires that auditors follow international standards for all assurance engagements. Further, Chief Audit Executives (CAEs) are now required to hold an internal audit designation. They also have a direct and exclusive reporting relationship with the deputy minister of their department (the civil servant in charge, similar to a UK permanent secretary) – a change that reflects the vital function they provide in managing today's complex environment. Indeed, CAEs are now seen as trusted strategic business advisors, not only because they understand their technical subject matter but because they understand their departments' business.

The policy also requires CAEs to develop and execute risk-based audit plans based on consultations with management, as well as risk indicators raised by external auditors and based on professional business knowledge. These plans are meant to be updated at least annually.

Perhaps the most visible change from past practices can be seen in governance. The new policy requires deputy ministers to create departmental audit committees with a majority of members from outside the federal public administration. Treasury Board ministers appoint members on the recommendation of the departmental deputy head and the Comptroller General of Canada.

Each audit committee provides objective advice and recommendations on the sufficiency, quality and results of internal audit's work providing assurance on a department's risk management, control and governance frameworks and processes. Committee members include chief executives of major private sector enterprises, senior academics, former senior executives from all levels of government, including former auditors general, and subject matter experts in areas of concern to the department. This mix of experience, expertise and objective perspective has elevated internal audit in government far above the old compliance officer mentality. This change in stature is testimony to the quality of advice and recommendations deputy ministers now receive on a regular basis from audit professionals.

At the same time as the changes to internal audit were initiated, Canada's Financial Administration Act was amended to designate deputy ministers as accounting officers. This designation did not add to or change the deputy's responsibilities. It affirmed that, in the context of ministerial accountability, deputy ministers are responsible for delivering departmental programs in compliance with government policies and procedures; measures to maintain effective systems of internal control in the department; the signing of the accounts that are required to be kept for the preparation of the Public Accounts of Canada; and the performance of other specific duties assigned to him or her by statute.

Following these reforms, the renewed internal audit function did not have to wait long to be tested. The global economic crisis of 2008 prompted the Canadian government to respond with a stimulus package, the Economic Action Plan, to address the impact of the recession on Canadians. It totalled $63 billion and had to be invested over a very short period. And internal audit played a key role in supporting its implementation.

Specifically, the Internal Audit Sector of my office gave information and support to CAEs to assist them in the management and design of stimulus measures. CAEs contributed by ensuring that sound controls were built into measures and that their design and implementation would be auditable.

Given the scale of the undertaking and time constraints, putting Canada's stimulus package into effect presented risks. It was a testament to the quality of the internal controls in place that the former auditor general of Canada, Sheila Fraser, found in 2010 that 'the programs we examined were designed in a manner to allow for timely implementation while maintaining suitable controls'. She went on to recognize the dialogue between my office and CAEs of federal entities most affected by the stimulus package – something that 'helped to disseminate best audit practices and to identify potential risks presented by the Economic Action Plan'.

The auditor general's comments contrasted sharply with what she said in 2004, when she found wide variations in how well internal audit in federal organizations had met the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing (the IIA Standards). That audit had also found variations in how well departments complied with the Treasury Board Policy on Internal Audit that was in effect at that time.

Indeed, the internal audit function in departments has come a long way. It is now not only doing a much better job of supporting departments in assessing and managing risks, but also adding value by providing independent advice and assurance that the controls in place are effective in ensuring that departments are achieving their objectives.

In June 2011, the auditor general confirmed this positive trend. In her final report to Parliament, she recognized the strengthened position of internal audit in the government of Canada and the way it was now compliant with policy requirements and the IIA Standards. The auditor general also noted that internal audit has the strong support of senior managers, who show greater appreciation of the role this function plays in their organizations. It's worth adding that these conclusions were confirmed in the independent five-year evaluation of the internal audit function commissioned by the Office of the Comptroller General of Canada in 2012.

Looking back, we can see that the transformation of internal audit is the result of steps taken to increase its professionalism and independence. Assurance engagements now have a risk-based focus and internal audit can rely on the support of departmental audit committees and their independent members.

We now find ourselves in new circumstances. We are now less focused on avoiding control failures and the risks involved in large dollar investments in support programs. We are no longer in the stimulus phase in response to the global economic situation. Rather, we are concentrating on how to support the government on cost containment. Decision-makers increasingly demand assurance that the information they get is both reliable and complete, especially with respect to estimated costs. Like most countries around the world, Canada is in a period of restraint, returning government spending to pre-stimulus levels, and all public servants are being called on to contribute to a culture of cost containment.

These are early days of what we see as a progressive approach to cost containment. Yet already we see internal audit's assurance function being joined by its formerly less frequently employed consulting capability. This is a result of the confidence placed in internal audit by management – both for its quality of work and knowledge of the organization.

In this new context it is important to recognize assurance as internal audit's primary but not exclusive activity, in balance with consulting. With cost containment, the clear opportunity is to uncover new ways to extract internal audit's value to management.

Through this period of transformation, internal audit has evolved into a flexible management tool. The range of activities to which it can add value is becoming clearer. But, throughout this transformation the primary goal remains to support and provide assurance to accounting officers and public service managers, and to ensure the sound management of Canadians' tax dollars.

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