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For the final version, see the French translation.*

THE PUBLIC SECTOR AUDITOR: TRAIT-D'UNION IN PUBLIC ADMINISTRATION

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For the final version, see the French translation.
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Abstract: Against the background of the establishment of a new chair in public sector auditing in The Netherlands, this paper aims to define the concept of public sector auditing in consideration of its scope, institutional aspects and specificities in the Netherlands context. Public sector auditing and its ties to notions of good public governance and accountability are also discussed, and future directions are explored. The paper describes the essence of public sector auditing as the execution of assurance oriented activities in the public sector by independent professionals from a rich variety of disciplines, backgrounds and positions. Financial audits, performance audits and compliance audits are the main types of audit work. In the various layers within the Dutch public sector, these areas are covered to different degrees and by different arrangements. Contributing to good public governance, primarily through upholding and promoting accountability, is considered the essence of the purpose of public sector auditing. Considering the value, benefits and effects of auditing, audit innovation, widening the audit scope and comprehensive auditing are topics for the further development of public sector auditing.

■ INTRODUCTION

In 2010, a Center for Public Auditing & Accounting and a corresponding chair have been established in The Netherlands[1]. Specialized education and research in public sector auditing will be the core activities of this Center.

In this contribution, after explaining the background and ambitions of the Center, the Dutch approach to this new academic field will be unfolded: how do we define public sector auditing and what do we take as its main substance?; in which institutional domain do we position it?; and how do we see its context and higher purpose? In addition, we will describe the state of the art in public sector auditing in The Netherlands, and consider some future directions for the development of public sector auditing.

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1 The Center is located at Nyenrode Business University in Breukelen.

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■ PUBLIC SECTOR AUDITING AS A NEW ACADEMIC FIELD IN THE NETHERLANDS

'Business and public administration are alike only in all unimportant respects,' so goes the frequently quoted saying of the American political scientist Wallace Sayre (Allison, 1983). To put it differently, public management differs from private management in all important respects. Whereas enterprises – in all their typological forms – pursue profits for their shareholders, public organisations seek good public governance in the public interest. The substantive and institutional characteristics of the public sector, and its enormous social and financial importance, call for a specific audit approach tailored to the sector's needs. The current audit education programs in the Netherlands, such as those for registeraccountants (RA), operational auditors (RO) and IT auditors (RE), however, rarely touch upon the public sector. Many external and internal auditors in the public sector lack public sector orientation in their academic audit baggage.

The public sector also has many auditors who were not trained in one of the established audit disciplines but began their audit careers in the public sector with a master's degree in public administration, sociology, philosophy or history, some with experience as policy officers. The need for input from these disciplines has grown strongly in recent years owing to the wider range of subjects being audited. But these auditors, who provide a touch of colour to the auditors' guild in the public sector, are rarely trained in the postulates, concepts and techniques of external and internal auditing.

Public administration and the audit function within it are too fundamentally important to leave such knowledge omissions untouched. Internal and external auditors working in the public sector must master the specifics of the public sector to make a meaningful contribution to good public governance.

In The Netherlands, a Center for Public Auditing & Accounting and a corresponding chair have been established in 2010 to give academic recognition to public sector auditing and to provide a professional program on public sector auditing for those who want to specialize in that direction and become a Certified Public Sector Auditor. The program includes modules on European, state and administrative law, public finance and financial management, government policy and policy evaluation, risk management and internal control, accounting and reporting, and auditing in its different forms. External and internal auditors meet in the same program, in which theoretical concepts, auditing standards (mainly ISSAIs) and international and national public sector auditing practices are presented and discussed.

The Center also supports other audit education programs by offering modules in public sector auditing. An example is the program for registeraccountants in The Netherlands. Financial audits of many public sector entities – including provinces and municipalities – fall within the regime of statutory audits, implying that these audits are subject to extensive legal quality requirements and independent supervision. To meet the requirements, the auditors involved should understand the ins and outs of the public sector environment and be able to translate those to their audit planning, execution and reporting. This knowledge is hardly provided by the regular program for registeraccountants.

The Center intends to cooperate with parties involved in comparable education initiatives in Europe – like in Austria, Denmark and Luxemburg[2] – and in other parts of the world.

Besides the educational activities, the Center conducts multidisciplinary academic research in the field of auditing, risk management and accounting in the public sector.

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[2] In Austria a postgraduate professional MBA in public auditing has been introduced in cooperation between the Austrian Court of Audit and the Executive Academy of the Vienna University of Economics and Business Administration. In Denmark, there is a post-master's Certified Public Sector Auditor course initiated by the Danish SAI, with the theoretical part given at several universities. In Luxemburg, the IUIL offers a program on public sector performance auditing, in cooperation with the European Court of Auditors.

In the next paragraphs, we will explain how we approach public sector auditing as a subject of academic education and research.

■ PUBLIC SECTOR AUDITING DEFINED

What is auditing?

The word auditing is derived from the Latin 'audire', meaning 'to listen'. A wise man – the auditor – listened carefully to a spoken description of a situation, applied his wisdom, his professional judgement, and came to an opinion (Kocks, 2003, p. 2).

In the course of time, auditing has developed into a systematic undertaking that is carried out in both the private and the public sectors and both internally and externally. Its essence lies in checking realities ('ist'-positions) against standards ('soll'-positions).

Definitions in the literature include:

'Review of a body's activities and operations to ensure that these are being performed or are functioning in accordance with objectives, budgets, rules and standards. The aim of this review is to identify, at regular intervals, deviations which might require corrective action' (Everard and Wolter, 1989).

'A procedure in which an independent third party systematically examines the evidence of adherence of some practice to a set of norms or standards for that practice and issues a professional opinion' (Mathison, 2005, p. 23).

'The accumulation and evaluation of evidence about information to determine and report on the degree of correspondence between the information and established criteria (Elder et al., 2010, p. 4).

Michael Power states that a simple definition of the term is neither easy nor desirable (1997, p. 4); despite the general references to account giving and checking, he sees no precise agreement about what auditing really is as compared with other types of evaluative practice, such as inspection or assessment. Official definitions, he writes, express what auditing could be rather than what it actually is: '… definitions are attempts to fix a practice within a particular set of norms or ideals' (p. 5). Nevertheless, he recognises four basic elements of auditing (p.4):

- independence from the matter being audited;
- technical work in the form of evidence gathering and the examination of documents;
- the expression of an opinion based on that evidence; and
- a clearly delimited audit subject matter.

To these, Lindeberg (2007) adds the element of appropriate criteria.

Power refers to the well-known economic approach to audit as a form of monitoring, which arises from a complex relationship of agent-principal accountability. Principals operate at some distance from the agents' activities and are not able to check them personally. The audit is a check requested when agents expose principals to moral hazard – because they may act against the principals' interests – and to information asymmetry – because they know more than the principals. In this approach, audit is an exercise in risk reduction that inhibits the deviant actions of agents. The principal will use audit as long as the marginal benefit exceeds the marginal cost.Different communities will institutionalise different forms or accountability and there may be different categories of 'principals' and 'agents' (1997, pp. 4-5).

Cutt (1988) characterises auditing as 'a process superimposed on an accountability relationship to provide assurance that information is appropriately disclosed and fairly presented'. More generally, he describes audit as, 'a systematic investigative process of objectively obtaining and evaluating evidence about economic actions and events defined in a specific accountability relationship to ascertain, using established criteria, the extent to which the delegated authority in that relationship has been exercised according to those accountability terms of reference, and communicating the results to intended users'. The auditor acts as an independent third party engaged by the principal to assess the information provided by the agent. External audit is thus concerned with the exchange of information between the directors of an organization and its shareholders or parliament. Internal audit is concerned with the flow of information between different management tiers (pp. 12, 13).

The best known and most professionalized form of external auditing is the audit of historical financial statements, leading to an auditor's report. The objective of such audits is to strengthen – by means of an opinion – the reliance that intended users can place on financial statements prepared by an entity's senior management. In the public sector, performance audits and compliance audits become increasingly prominent as forms of external auditing.

Internal auditing is another highly developed and institutionalized form of audit. It is defined as 'an independent objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes' (www.theiia.org).

In their assurance activities, external and internal auditors form opinions on matters within a given institutional and accountability context in an independent, expert and systematic manner on the basis of accepted criteria and sound evidence. The auditor acts as a trait- d'union between a principal and an agent; through his assessment work, he connects the two parties and contributes to trust within their relationship.

A closer look at auditing reveals that this function need not necessarily be strictly limited to the relationship between an agent and a principal. It may also link an agent to other stakeholders. An auditor's report on an entity's financial statements, for example, is of importance not only to the shareholders but also to lenders, employees and other third parties. In this light, the International Federation of Accountants (IFAC) sees the acceptance of responsibility to act in the public interest as a distinguishing mark of the accountancy profession (IFAC, 2010b, p. 9) and sees it as its mission to act in the public interest, in part by strengthening that profession (IFAC, 2010a, p. 3).

The audit function therefore has the potential to bring society together and thus increase public confidence. Anchoring certain audit tasks in law highlights which aspects of the audit function are – apparently – thought to be essential to society at a particular point in time.

What is public sector auditing?

Public sector auditing can be described as the performance of audit work in the public sector.

The public sector comprises international public organisations, countries, individual public organisations within a country's administrative tiers and national and international networks of public organisations – either within an administrative tier or cutting across administrative tiers. I also consider alliances between public organisations and private parties to be part of the public sector in so far as they are established and operate through government policy (top down) (van Montfort, 2008, pp. 9; 35). In the Netherlands it is customary to make a distinction within the public sector between central government (ministries and the agencies reporting to them), provinces, municipalities and water boards, and autonomous administrative entities.

In his construction of a philosophy of government auditing, Dittenhofer (1996, pp. 103, 104) names 'truth' as the main element of auditing and the sine qua non of the audit process. He goes on to identify four values that steer the audit process in the public sector:

- social values, how does the audit process improve the welfare of the community influenced by the audit?

- ethical values, how does the audit process influence the ethical structures in such a community?
- economic value, how does the audit process add to economic prosperity?
- political value, what are the consequences of the audit for the political activities?

At heart, public sector auditing constitutes a truth-seeking link between public entities and the democratically elected bodies to which they are accountable, or – in the case of internal audit – the departments and the senior management tiers to which they are accountable. Auditing thus improves the operation of a democratic state and its public organisations.

Substance of public sector auditing

The main categories of public sector auditing from the perspective of its contents are 'financial audit', 'performance audit' and 'compliance audit'. They are defined by INTOSAI as follows:

> Financial audit: 'an independent assessment, resulting in a reasonable assurance opinion, of whether an entity's reported financial condition, results, and use of resources are presented fairly in accordance with the financial reporting framework.' (www.isai.org, ISSAI 1003, 2010, p. 56);
> Performance audit: 'an independent and objective examination of government undertakings, systems, programmes or organizations, with regard to one or more of the three aspects of economy, efficiency and effectiveness, aiming to lead to improvements (…). The auditor is not normally expected to provide an overall opinion on the achievement of economy, efficiency and effectiveness by an audited entity in the same way as the opinion on financial statements'. (www.issai.org, ISSAI 3100, 2010, p. 5, 7.
> Compliance audit: ' the responsibility of the SAI to audit whether the activities of public sector entities are in accordance with the relevant laws, regulations and authorities that govern such entities.' (ISSAI 4000, 2010, p. 4). ' Depending on the mandate of the SAI, a compliance audit may be an audit of regularity, or propriety, or both. Regularity is the concept that activities, transactions and information pertaining to an audited entity are in accordance with authorising legislation, regulations issued under governing legislation and other relevant, laws, regulations and agreements, including budgetary laws and are properly sanctioned. Propriety refers to general principles of sound public sector financial management and conduct of public sector officials (…). Public sector auditors evaluate whether, based on the evidence obtained, there is reasonable assurance that the subject matter information is in compliance, in all material respects, with the identified criteria (www.issai.org, ISSAI 4100, 2010, pp. 12, 33).

In the public sector, audits of financial statements are often combined with audits of compliance with authorities; audits of compliance with authorities include the assessment of whether the activities, financial transactions and information that are reflected or contained in the accounts or financial statements are in accordance with applicable resolutions of the legislature, including budgetary laws or decisions for such, provisions for funds, contracts, grant agreements etc. (www.issai.org, ISSAI 1000, 2010, p. 15)

INTOSAI emphasizes the 'different nature' of performance auditing - relative to financial auditing:

> 'While financial auditing tends to apply relatively fixed standards, performance auditing is more flexible in its choice of subjects, audit objects, methods, and opinions. Performance auditing is not a regular audit with formalized opinions, and it does not have its roots in private auditing. It is an independent examination made on a non-recurring basis. It is by nature wide-ranging and open to judgments and interpretations. It must have at its disposal a wide selection of investigative and evaluative methods and operate from a quite different knowledge base to that of traditional auditing. It is not a checklist-based form of auditing. The special feature of performance auditing is due to the variety and complexity of questions relating to its work. Within its legal mandate, performance auditing must be free to examine all government activities from different perspectives.' (*www.issai.org*, ISSAI 3000, 2004, p. 12).

The LIMA Declaration assigns equal importance to financial and compliance auditing on the one hand and performance auditing on the other:

> 'The traditional task of Supreme Audit Institutions is to audit the legality and regularity of financial management and of accounting. In addition to this type of audit, which retains its significance, there is another equally important type of audit--performance audit--which is oriented towards examining the performance, economy, efficiency and effectiveness of public administration. Performance audit covers not only specific financial operations, but the full range of government activity including both organizational and administrative systems. The Supreme Audit Institution's audit objectives--legality, regularity, economy, efficiency and effectiveness of financial management--basically are of equal importance. However, it is for each Supreme Audit Institution to determine its priorities on a case-by-case basis.' (p. 6).

The three main types of audit share the requirement that the auditor, in determining the extent and scope of the audit, should study and evaluate the reliability of internal control – a concept reflecting the main audit criteria from a management responsibility perspective (www.issai.org, INTOSAI GOV 9100, 2004). The assessment of internal control is an important area of coordination and cooperation between external and internal auditors.

▪ INSTITUTIONAL ASPECTS OF PUBLIC SECTOR AUDITING

Public sector auditors

I would define a public sector auditor as someone who carries out audit work in the public sector on a professional basis. According to this broad definition, the group of public sector auditors includes (Dees,2011):

- both those who carry out traditional audit work (attestation of financial statements, review engagements, grant audits, etc.) and those who carry out audits in a wider sense (for example operational audits, evaluations that are predominantly assessments in nature, compliance audits, IT audits and environmental audits);
- both auditors employed by a public organisation and auditors operating from an external position (such as auditors working for Supreme Audit Institutions, local audit offices or private audit firms);
- both auditors who examine management and information issues within public
- organisations (e.g. internal auditors carrying out compliance audits within an organisation) and auditors who, on account of the task of the public organisation for which they work, audit the operational management and information of third parties (e.g. auditors at the Tax and Customs Administration who examine entities' internal controls and tax returns);
- both those who contribute technical expertise and methodological baggage gained from specific audit training (such as registeraccountants (CPA's), IT auditors, operational auditors and forensic auditors) and those who do so from other disciplines (such as public administration, law or psychology);
- auditors working at all administrative levels in the public sector, including international organisations, central government (ministries and agencies), provinces and municipalities, water boards and autonomous administrative authorities.

The group of public sector auditors therefore boasts a rich variety of disciplines, backgrounds, functional positions and types of audit work.

Professional organizations

Public sector auditing has its own place in several professional organisations and constellations within the audit profession.

Some professional organisations have been formed solely for public sector auditing. The International Organization of Sopreme Audit Institutions (INTOSAI) presents itself on its website (www.incosai.org) as 'the umbrella organization for the external government audit community.' Under the motto Experientia Mutua Omnibus Prodest ('mutual experience benefits all'), it develops professional standards (see www.issai.org) and promotes the exchange of knowledge and support for emerging audit offices. Other public sector audit organisations include EUROSAI (the European Organization of Supreme Audit Institutions) and, in the Netherlands, the Association of Audit Offices (NVRR). In the United Kingdom, CIPFA (the Chartered Institute of Public Finance and Accountancy) is a specialised representative of public sector auditing.

Other professional accountancy organisations recognise to one degree or another that public sector auditing holds a special place in the audit field they cover. On the European level, for example, the

Fédération des Experts Comptables Européens (FEE) has a Public Sector Committee. In The Netherlands, the public sector has a special position in the governance and professional codes of the professional accountancy organization (Royal NIVRA). The IIA has a Public Sector Committee and an examination programme tailored to internal auditors in the public sector (the Certified Government Auditing Professional Examination, CGAP).

The International Federation of Accountants (IFAC) no longer has a Public Sector Committee. Its public sector oriented activities are concentrated in IPSASB - a standard-setting board that develops international public sector accounting standards.

International public sector auditing standards

INTOSAI is the main international standard setter for audits in the public sector. In 2010, it endorsed a comprehensive set of International Standards of Supreme Audit Institutions (ISSAIs) and INTOSAI Guidance on Good Governance[3] (see www.issai.org). INTOSAI calls upon its members to use it as a common frame of reference for public sector auditing by implementation in accordance with their mandate and national legislation and regulations. The standards and guidelines, however, can also strengthen the quality of audit engagements performed by private firms in the public sector. They may also inspire internal audit work in the public sector, which is primarily lead by the professional standards of IIA.

The ISSAIs are classified in four levels - :

Level 1: Founding Principles: this level contains the founding principles of INTOSAI. These are found in the so called Lima Declaration (ISSAI 1).

Level 2: Prerequisites for the Functioning of Supreme Audit Institutions: based on the founding principles, the documents on this level contain general statements and principles on institutional issues and on the proper functioning and professional conduct of SAIs (ISSAIs 10, 11, 20,21,30 and 40).

Level 3: Fundamental Auditing Principles: these documents contain the fundamental principles and concepts for carrying out audits of public entities. They include both basic requirements on qualification, independence, conflicts of interest, competence and due care, and more detailed guidance on for instance planning, evidence, analysis of financial statements, internal control and reporting (ISSAIs 100, 200, 300 and 400).

Level 4: Auditing Guidelines: documents on this level contain more specific, detailed and operational guidelines that can be used on a daily basis for auditing tasks. This level, by far the most voluminous, includes implementation guidelines for the three main types of public sector auditing - financial audit, performance audit and compliance audit – and guidelines on specific subjects (ISSAIs 1000-1810, 3000, 3100, 4000, 4100, 4200 and 5000-5600).

For its financial audit standards at level 4, INTOSAI works on the basis of a Memorandum of Understanding in close consultation with the international standard setter for audits of historical financial information: IFAC's International Auditing and Assurance Standards Board (IAASB). It adopted the latter's International Standards on Auditing (ISAs) without change. By means of Practice Notes for each ISA, however, it has published additional explanations and guidance for financial audits in the public sector[4].

By itself, it has developed and published standards for compliance audits and performance audits - the most common additional responsibilities of public sector auditors.

[3] INTOSAI Guidance on Good Governance (INTOSAI GOV) refers to INTOSAI guidance to the administrative authorities, e.g. on internal control and risk mangement.

[4] IFAC argues that the ISAs are relevant to financial audit engagements in the public sector, but refers to INTOSAI, inter alia, for guidance on additional audit responsibilities commonly found in the public sector (ISA 200, par. A57).

Supreme Audit Institutions as leading public sector audit entities

Supreme Audit Institutions worldwide act as the external auditors of both national and international public sector organizations. They work under different models in accordance with national legislations in which their mandates and powers are defined. Their audit responsibilities may either be limited to the central government departments and agencies, or also include other public sector entities.

In 2011 the United Nations General Assembly expressly recognized the important role of SAIs in promoting the efficiency, accountability, effectiveness and transparency of public administration, conducive to the achievement of national development objectives and priorities as well as the internationally agreed development goals[5]. In this resolution, the UN encourages member states to apply, in a manner consistent with their national institutional structures, the principles set out in the two most fundamental INTOSAI documents: The LIMA Declaration (ISSAI 1, 1977) and the Mexico Declaration on Supreme Audit Institutions Independence (ISSAI 10, 2007).

The LIMA Declaration – held to be the Magna Carta of government auditing – includes the following statement on the purpose of public sector auditing:

> '(…) the specific objectives of auditing, namely, the proper and effective use of public funds; the development of sound financial management; the proper execution of administrative activities; and the communication of information to public authorities and the general public through the publication of objective reports, are necessary for the stability and the development of states in keeping with the goals of the United Nations. (…)
> The concept and establishment of audit is inherent in public financial administration as the management of public funds represents a trust. Audit is not an end in itself but an indispensable part of a regulatory system whose aim is to reveal deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness and economy of financial management early enough to make it possible to take corrective action in individual cases, to make those accountable accept responsibility, to obtain compensation, or to take steps to prevent--or at least render more difficult--such breaches.' (ISSAI 1, 1977, p. 5).

This statement clearly positions public sector auditing as an institutional power within a state structure. It also puts its objectives in a good public governance and accountability perspective, a perspective which we will further develop in paragraph 6.

■ PUBLIC SECTOR AUDITING IN THE NETHERLANDS

Central government

In the Dutch central government audit system, two main audit bodies can be identified: the Netherlands Court of Audit (NCA), being the external auditor reporting to the House of Representatives, and the central government internal audit department reporting to the ministers.

The NCA is a High Council of State founded in the Constitution. It has an independent position vis-à-vis the government and the States General. Its position, mandates and powers are described in the Government Accounts Act. Its most fundamental task is to provide annually a statement of approval on the central government accounts. It also certifies the financial statements of the ministries by expressing an audit opinion on both true and fair view and regularity of financial transactions. Furthermore, the NCA audits the soundness of financial and material management and the efficiency and effectiveness of government policy and management. Over the last decade, the NCA gradually developed the fulfillment of an additional task, being the audit of performance information published by the ministries in their annual reports.

The NCA has powers to audit organisations that are financially connected to central government – e.g. through loans, grants or guarantees – and organizations that fulfill a legal tasks financed by public money. The

[5] http://www.intosai.org/fileadmin/downloads/downloads/0_news/2012/UN_Resolution_A_66_209_E.pdf

primary purpose of these powers is to ensure that ministers can adequately be held accountable for their responsibilities with respect to these organizations.

From this short description, we can learn that both financial audits (including testing compliance of financial transactions) and performance audits are legally defined audit tasks of the NCA. The compliance audit task is limited to financial and material management for the time being.

To avoid double work, the NCA makes maximal use of the work of the central government internal audit department. Especially in its financial audits this use is systematic, made possible by the fact that the audit department provides internal audit opinions on the financial statements of the ministries. The Government Accounts Act also requires the audit department to cover the other audit areas of the NCA, with one exception: the audit department does not have a legal performance audit task. However, performance audits may be executed on management request.

A relatively new audit activity of both the NCA and the internal audit department is the audit of EU-funds. This work is conducted to provide assurance to the European Commission, and also to the Dutch parliament and other stakeholders, on the quality of management, and legality and regularity of spending of these subsidies.

Provinces, municipalities and water boards

At the provincial and local level and for the water boards, the financial statements are certified by private audit firms. Only in Amsterdam and Den Haag the city's internal audit department is also appointed as external auditor certifying the accounts. All certifying auditors are formally appointed by the democratically elected bodies. The audit opinions include a paragraph on the regularity of the financial transactions.

For the other main audit responsibilities – performance and compliance - each province and municipality is legally obliged to set up either a public audit committee (in which members of the council may participate) or an independent audit office (excluding members of the council).

No specific legal audit task is formulated yet on the reliability of performance information included in the annual reports of these layers of government. The only test audit firms include in their financial audit task regards the consistency of the performance information with the reported financial information.

In all entities, an internal audit department may be established as part of the governance system. There is, however, no legal obligation to do so.

Autonomous administrative entities

The financial audit of autonomous administrative entities is conducted by private audit firms. Their audit opinions also cover the regularity of the financial transactions reported in the financial statements. In addition, the audit firms also have to report their findings on the efficiency of the entities' management. There are no further requirements on either compliance or performance audits. For the performance information included in the annual report, the financial audit includes the same consistency test mentioned as for the provinces, municipalities and water boards.

The NCA has legal powers to audit many of the autonomous administrative entities. These powers should be seen in connection with and as a reinforcement of the compliance and performance audit tasks of the NCA at the central government level.

Like at the provinces, municipalities and water boards, an internal audit department is not mandatory at this level.

■ GOOD PUBLIC GOVERNANCE AS CONTEXT AND PURPOSE OF PUBLIC SECTOR AUDITING; ACCOUNTABILITY AS A CORE CONCEPT

Introduction

As argued in paragraph 4.4, public sector auditing is an essential element of good governance and contributes to it at the same time. Organizations of public sector auditors – like state, regional or local audit offices, audit firms and internal audit departments - have their specific mandates, powers and responsibilities, but the perspective is the same: contributing to good public governance, primarily through upholding and promoting accountability (Dees, 2011; ISSAI 100, 2001, par. 21, 22 and 36).

Good public governance

Through their role in ensuring accountability, public sector auditors help public sector organizations to satisfy a series of criteria, namely (Dees, 2011, pp. 20-22):

Performance criteria	• effectiveness: does policy implementation produce the desired outputs?; • economy and efficiency: are goods and services procured economically? Are the best possible results achieved with the least possible resources? In other words, is there maximum value for money?
Due care criteria	• responsiveness: are policy formulation and implementation based on public needs? • democracy: can citizens participate in and influence policy formulation and its implementation and are they adequately informed to do so? • regularity: are international treaties and statutory rules observed? Do financial transactions, moreover, comply with the conditions in contracts and grant agreements? • propriety: are written and unwritten standards of proper administration observed? • integrity: are the activities ethical and responsible?
Financial criteria	• financial solidity and fiscal sustainability: are policy formulation and implementation financially well-founded and compliant with agreed budgetary frameworks? Are all financial requirements and consequences in both the short and the long term taken into account? Have the interests of future generations been considered?
Organizational criteria	• quality of internal governance: is there good internal governance (including risk management and internal control, internal audit and oversight) and do the staff have adequate expertise? • quality of cooperation with other organizations: are powers and responsibilities clearly allocated to organizations and are they exercised correctly? • innovative power: are new approaches and working practices developed and applied during policy formulation and implementation? • learning ability: does the organization learn from its own experiences and those of relevant other organizations? • sustainability: are the interests of people and the planet taken into account?

Accountability and transparency criteria

- transparency: is relevant information freely available and do stakeholders have direct access to it? Are decisions taken, implemented and enforced in accordance with agreed procedures? Is the information in the budgets, annual reports and other sources relevant (as well as being timely and up to date), reliable, comparable and understandable?
- quality of public accountability: are both the substantive and procedural aspects of the various modalities of vertical and horizontal public accountability adequate? Do the contents of public accountability and the external reports based on them reflect the full breadth of the public organization's powers and responsibilities and all quality requirements of good public governance? (Dees, 2009);
- quality of external audit: are essential public accountability information and other essential matters subject to adequate audit by qualified, independent auditors?
- accountable decisions: where a dilemma arises between the various aspects of good administration, are reasoned decisions taken that can be justified by reference to the public interest? (Bemelmans-Videc, 1993, pp. 29-30.).

By including ‘accountable decisions’ as a criterion, explicit recognition is given to the dilemmatic nature of public administration and the existence of contradictory public values. Compliance with the rules for finances and fairness can hinder performance, and the search for performance may put the level of compliance under pressure. This reality results in an ‘accountability dilemma’: the trade-off between accountability for finances and fairness and accountability for performance.’ (Behn, 2001, pp. 10-11). The legitimacy of public administration depends on the capacity of politicians and civil servants to ‘survive’ in this dilemma: they have to operate within this arena of tension and need to be sensitive to the mix of values which dominates in a certain place and time (Bovens et al., 2001, p. 34). They need to balance democracy with efficiency: ‘Democracy and efficiency cannot do without each other. Efficient government legitimates democracy, and democratic governments requires some effort toward efficiency’ (Raadschelders, 2003, pp. 108-109). The choice of the relative priority attributed to these values, which are often specified in criteria by representatives of certain disciplines (Bemelmans-Videc, 1993, p. 17), is based on ‘dominant social and political ideologies and approaches’ (Bemelmans-Videc et al., 1999, pp. 18-19). Administrators are expected to be ‘generalists’, requiring the capabilities of ‘appraisal’ (appreciative judgment) and coordination/integration, resulting in a politically and administratively feasible judgment (Bemelmans-Videc, 1993, pp. 11-12). Resolving the dilemma’s between the values are often elaborated requires ‘administrative ethics’: a set of new values - meta-values or final values- , forming the basis for the generalistic choice. These final values should be closely linked to the notion of public interest. The actual processes of administrative judgement, and the related values and considerations, are recognizable through the formal, externally presented justifying statements (Bemelmans-Videc, 1993, pp. 25-26).

Good public governance is not a static but a dynamic concept. It can never be completed but is in a continuous state of maintenance and improvement. It is an intangible form of territorial development that is ultimately concerned with public happiness. Public sector auditing is one of the many forces that can continuously help to improve the quality of public governance. Throughout the array of partly contradictory criteria, the public sector auditor can serve as a trait-d’union between public sector organizations on the one hand and democratically elected bodies and citizens on the other (Dees, 2011, p. 13).

The devotion of public sector auditing to good governance and accountability is reflected in the descriptions of missions, strategies and work of supreme audit institutions. At the same time, given the restricted legal mandates of the SAIs, not all criteria of good governance are reflected in their audit tasks. The websites of some prominent SAIs tell us, for example that:

- The Office of the Auditor General (OAG) in Canada audits federal government operations and provides Parliament with independent information, advice, and assurance regarding the federal

government's stewardship of public funds. It carries out three main types of legislative audits: financial audits, special examinations, and performance audits;
- The Netherlands Court of Audit (NCA) audits and improves the regularity, efficiency, effectiveness and integrity with which the State and associated bodies operate. It also audits compliance with the Netherlands' obligations under international agreements. The work focuses on good governance to improve the learning ability of public administration;
- The National Audit Office (NAO) in the United Kingdom helps the nation to spend wisely and helps Parliament and government to drive lasting improvement in public services, by auditing the financial statements of all government departments and a wide range of other public bodies, and producing around 60 value for money reports per year;
- The Government Accountability Office (GAO) in the United States supports the Congress in meeting its constitutional responsibilities and helps to improve the performance and to ensure the accountability of the federal government for the benefit of the American people, by
  - auditing agency operations to determine whether federal funds are being spent efficiently and effectively;
  - investigating allegations of illegal and improper activities;
  - reporting on how well government programs and policies are meeting their objectives;
  - performing policy analyses and outlining options for congressional consideration;
  - issuing legal decisions and opinions, such as bid protest rulings and reports on agency rules; and
  - advising Congress and the heads of executive agencies about ways to make government more efficient, effective, ethical, equitable and responsive.

Public sector auditors contribute to good governance primarily by serving public accountability. In the next paragraph, we will further analyse this fundamental concept.

Public accountability as core concept

Need for public accountability

Public administration requires politicians and civil servants to use scarce public funds to develop and implement policy with other public organisations and private parties in order to produce outcomes or carry out designated tasks in the public interest. To this end, public organisations take binding decisions and exercise administrative power within the frameworks of the democratic rule of law. As public organizations carry out vital public activities, using considerable amounts of taxpayers' money, and can take far-reaching, binding decisions, well-developed accountability arrangements including external and internal audit functions are essential.

Public accountability is a democratic anchor to control the public exercise of power (democratic perspective), to safeguard the balance of power (constitutional perspective) and to strengthen the learning ability (cybernetic perspective) (Bovens, 2006, pp. 25-26).

Definitions

Public Administration lacks a generally accepted definition of 'accountability' . It is qualified as: 'an elusive concept, and ambiguous abstraction, defined in different ways by different authors, with its meaning and characteristics differing depending on the context.' (Behn, 2001, p. 2).

Examples of definitions found in the Public Administration literature are:

> 'an obligation to present an account of and answer for the execution of responsibilities to those who entrusted those responsibilities'. (A. Gray en Jenkins, 1993, p. 55);

'the process for meeting the information needs of those to whom one is responsible (either legally or morally). These needs involve information about possible futures, current actions and the results of past actions.' (Cutt and Murray, 2000, p. 29);
'the obligation to render an account for a responsibility conferred.' (LeClerc et al., 1996, p. 44, conform Wilson Committee, 1975, p. 9);
'a relationship in which an individual or agency is held to answer for performance that involves some delegation of authority to act.' (Romzek and Dubnick, 1998, p. 6).

Bemelmans-Videc (2003, p. 182) relates 'accountability' to the concepts of 'authority' and 'responsibility':

'The degree and nature of accountability is dictated by (delimitations of an) actor's authority, as expressed in the direct relation between the concepts of authority, responsibility and accountability: authority is the right to act; (delegated) authority presupposes the allocation of commensurate responsibility; responsibility is the obligation to perform the delegated duties and tasks; while accountability is the obligation to present an account of and answer for the execution of responsibilities to those who entrusted those responsibilities.'

According to these definitions, 'accountability' is essentially interpreted as an obligation to account and answer for the execution of responsibilities to those who entrusted those responsibilities. These responsibilities are deliminated by the actor's authority. Accountability involves provision of information on, as well as explanation and justification of actions, activities and choices.

Additional dimensions of accountability

Other essential dimensions of the accountability of public sector organizations found in the Public Administration literature are:

- a distinction between internal accountability (within a group) and external accountability (in respect of outsiders) (Bovens, 1998);
- a distinction between objective accountability (formal requirement to account as the counterpart to assigned responsibility) and subjective accountability (voluntarily, reflects moral character and personal standards of administrators (Cutt and Murray, 2000);
- a distinction between vertical accountability (hierarchical) and horizontal (nonhierarchical) accountability (Bovens, 2006). Accountability frameworks are generally built around the core, hierarchical two-party model (principal and agent, forum and actor, accountee and accountor), but extended to recognize a broad range of constituencies with an interest in disclosure of information (Cutt and Murray, 2000);
- a distinction between political, legal, administrative, professional and social accountability, reflecting different accountability fora. Political accountability refers to the common principal-agentrelations in the democratic 'Rechtsstaat' (Bovens, 2006);
- the importance of (1) specified expectations about conduct and performance and (2) discretion as preconditions to accountability (Behn, 2001; Cutt and Murray, 2000);
- its ethical nature: 'public accountability (…) requires reasoned application of moral rules and ethical analysis (…). It is at the levels of moral rules and ethical analysis that we are most likely to be able to account for our conduct publicly in terms that can be evaluated by political officials and the citizenry.' (Cooper, 1998, p. 18);
- its composition of three main stages: (1) reporting by the accountor; (2) discussion between accountee and accountor; (3) evaluation by the accountee, and (capacity for) consequence: approval or blame, reward or penalty, dismissal or renewal of confidence. Accountability is a means to evaluation and decisionmaking by the accountees (Bovens, 2006; Cutt and Murray, 2000; Stewart, 1984);
- its public nature: accessible to the public (Bovens, 2006; Friedberg et al., 1991; Mayne, 2007);
- its broad scope and complexity relative to accountability in the private sector: 'Public accountability is both wider and deeper (…) Accountability cannot therefore be defined in a single dimension. (…) It has to find many languages to find many accounts. It has to encompass quality and quantity. Public accountability is through a political process which responds to many voices.' (Stewart and Ranson, 1994, pp. 56-57);

- the role of 'codes of accountability', a code of accountability being 'a system of 'signals, meanings and customs which bind the principal and steward in the establishment, execution and adjudication of their relationship.' (A. Gray and Jenkins, 1993, pp. 53-54);
- its orientation on possible futures, current actions and results of past actions (Cutt and Murray, 2000; McCandless, 2002).

Substance of public accountability

Finances, fairness and performance are recognized as the main dimensions of the scope of accountability (Behn, 2001). This core substance is also presented in the form of a disctinction between 'procedural accountability' (financial accountability and accountability for compliance) and 'consequential accountability' (efficiency and effectiveness, value for money) (Cutt and Murray, 2000).

Although accountability for performance has been strongly emphasized in the context of New Public Management (Mayne, 1997), accountability for finances and fairness has maintained its fundamental importance: 'Although economic efficiency, economy, and competition are important as criteria of accountability, what makes public governance truly public and distinguishes it from private-sector management is its accountability for a unique set of public missions and norms such as representation, equality, impartiality, integrity, justice, and citizenship. This basic normative dimension must be taken into consideration by policy-makers and reformers in articulating the standards if public governance is to be held accountable.' (Haque, 2000, p. 610).

The substance of public accountability could further develop to ultimately reflect the full scope of criteria of good governance that apply to the use of powers and the execution of responsibilities of public sector organizations. This array of criteria was presented in paragraph 6, and additional criteria may emerge in the course of time as a result of societal developments and expectations. This broad interpretation of public accountability constitutes a basis for further development of public sector auditing.

Consequences for public sector auditing

The role of public sector auditors in specific situations should be properly aligned to, and develop with, the accountability arrangements put in place in terms of, inter alia, codes, substance and regulations. Therefore, public sector auditors should obtain a thorough understanding of these arrangements to determine their strategy on types of audits, audit methods, intervention modalities and ways of communicating and reporting.

The current ISSAIs reveal major democracy-related (procedural) and efficiency-related (results-oriented) forms of accountability – namely financial accountability, accountability for performance and accountability for compliance (regularity, propriety).

■ FUTURE DIRECTIONS

Considering value, benefits and effects

Being an important force in the dynamic domain of good public governance, public sector auditing itself also needs to be dynamic in order to keep on delivering public value.

In this respect it is of fundamental importance that INTOSAI has put the discussion on the promotion and communication of value and benefits of SAIs high on its strategic agenda. In 2010, it launched a framework[6] on this topic, which will be transformed to a high level ISSAI. The framework is constructed around two interrelated objectives: an external focus to make a difference to the lives of citizens, and an

[6] The Johannesburg Accords (2010), p. 26. http://www.incosai.co.za/downloads/accords/JHB%20Accords_EN.pdf

internal focus to lead by example by being a model institution. Each objective is explained with reference to a number of fundamental requirements, which in turn are supported by a number of guiding principles. By adopting values like responsiveness and accountability as fundamental requirements for their own operations, the SAIs recognize that they should meet the criteria of good governance themselves if they want to be effective and credible in a changing environment. The same can be argued for public sector auditors in general, both external and internal. Living up to these values could contribute to a response to critical claims that the audit explosion, particularly in the public sector, is due to its ability to put itself beyond empirical knowledge about its own effects in favor of a constant programmatic confirmation of its potential (Power, 1997, p. 144). It also could help the public sector auditors to be constantly aware of both the intended and the unintended effects of their interventions (Leeuw, 2011; Van Loocke and Put, 2011; Morin, 2008).

Audit innovation

In the context of responsiveness, there is a call for audit innovation: 'To be able to benefit and improve the learning ability of our auditees, we have to be in touch with our society, which is constantly changing and challenged by uncertainties. As auditors we need the ability to look in new and different ways at new phenomena. If we don't, we are closing our eyes to reality and will become less relevant to the society we want to serve. (Stuiveling, 2010, p. 132).

Various types of innovation may be distinguished (idem, p. 136):

- innovative methods: using new ways of conducting audits;
- innovative products: using new ways of communicating the results of audits and knowledge;
- innovative interventions: using new ways of influencing auditees and other stakeholders;
- innovative relations: investing in and developing relations with stakeholders other than auditees.

Widening the scope

Widening this scope of public sector auditing could be another type of audit innovation. Given their devotion to public accountability, there is every opportunity for the public sector auditors to spread their wings and serve throughout the entire field of good public governance as linking pins between public organisations on the one hand and democratically elected bodies and individual or groups of citizens and organisations on the other. Auditing is meaningful wherever the benefits of gaining audit information are thought to be greater than the costs. Scarce audit capacity should ideally be allocated to areas in which this margin is the greatest.

For example, audits on the quality of published information on realized activities and achieved outputs and outcomes could be conducted more structurally and systematically. With regard to the 'financial solidity and fiscal sustainability' criterion, public sector auditors in Europe could develop forms of assurance on the EMU balance and EMU debt figures that Statistics Netherlands (CBS) and the Ministry of Finance report to Europe. This nationally and internationally vital national accounting information has a high risk of material error and a substantial tendency to misstatement. With the international emergence of long-term projections of revenues and expenditures, public sector auditors could provide assurance on the accounting policies and calculation methods applied. Regarding the other criteria of good public governance, too, public sector auditors can add a great deal of value, for example in the fields of propriety and integrity. With respect to the latter, they might review a public organisation's ethical position by application of the Ethics Thermometer (Kaptein, 1988). The 'transparency' criterion seems to be self-evident but in the political and administrative arena it is anything but. Enthoven (2011) analysed 25 years of parliamentary inquiries in The Netherlands and found a recurring pattern of poor information supply from the government to the House of Representatives. The shortcomings ranged from incorrect, incomplete, obscure, misleading and selective information to excessive information. Sometimes, the shortcomings are incorrectly put down to the confidential nature of the information. The House is usually not informed of the policy options and the various lines of reasoning. Shortcomings are also regularly found in the information that civil servants provide to ministers. It is not unknown for critical and politically sensitive information to be withheld from the minister. The mechanisms can also be seen in the daily flow of information between the government and parliament. To my mind, this is anything but good public governance and both external and internal public sector auditors are facing a host of challenges.

Over the coming years, the scope of public accountability, and public sector auditing correspondingly, could be extended to include all criteria of good public governance mentioned in paragraph 6. Ideally, public sector organizations would account for good governance by making explicit assertions on these criteria – e.g., statements on compliance or statements on effectiveness - and on the trade-offs made between them. The auditor would assess the fair presentation of these assertions: comprehensive information auditing, conducted by multidisciplinary teams. This brings us to the issue of integration.

Comprehensive auditing

Integrated judgments by public sector auditors on good governance - implying mediation between contradictory values like effectiveness and efficiency, legality an democracy – have been characterized as both 'a valued characteristic' and 'an inescapable challenge' (Bemelmans-Videc and Fenger, 1999, p. 40). Currently, the ISSAIs do not explicitly recognize the contradictory and dilemmatic nature of the values in public administration and the resulting trade-offs and accountability dilemma's. These standards are characterized by segregation between financial audits, compliance audits and performance audits, each type resulting in partial judgments. Many audit reports avoidably offer a one-sided judgment of a multi-sided practice, e.g. the execution of policy programs is only judged on its effectiveness and/or efficiency without considering compliance with applicable laws and regulations, or compliance is assessed without paying attention to efficiency or effectiveness.

Three arguments in favor of integration can be distinguished (Bemelmans-Videc and Fenger, 1999, p. 45):

- increased efficiency, both for the auditee as well as for the auditor;
- financial/regularity audit and performance audit already partially share the same object and norms;
- integration would enable the auditor to present an integral picture both to its clients (especially Parliament) as well as to the auditee. This should alleviate the tension between regularity and effectiveness.

An integrated or comprehensive audit approach[7] would take the existence of contradictory values in public administration, and the corresponding need for administrators to balance and mediate between these values, as a starting point. ' Performance and compliance!' rather than ' performance or compliance?' (Pollitt et al., 1999). Integration or comprehensiveness are to be achieved through the main stages of auditing: planning, execution and reporting. In evaluating audit findings and preparing audit reports, the challenge of integral judgment arises. The following options for this judgment – implying mediation between the contradictory values - have been proposed by Bemelmans and Fenger (1999):

- choice making (prioritizing) by the auditors themselves, on the basis of a normative framework of a higher order (integration guide) – representing final values linked to the auditor's interpretation of 'the general interest';
- democratically elected bodies providing final judgments about the ranking of the values and norms of good governance – these bodies being the political bodies which are called to appraise through political prioritizing and compromising, thus offering the concrete interpretation of 'the general interest' in general or in specific cases.

[7] The latter concept has been initially developed already around 1980 -, most prominently in Canada An important landmark was the establishment of the Canadian Comprehensive Auditing Foundation (CCAF) as a cooperative, non-profit organization devoted to research and education in this field (LeClerc et al., 1996, p. 227).

The main international public sector auditing standards – the ISSAIs - could be further developed to encourage and support such an integrated approach, e.g. by designing a set of 'comprehensive audit standards'.

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