



# Public Sector Performance Audit:

A Critical Review of Scope  
And Practice in the  
Contemporary Australian Context



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# Introduction

## Background to the Study

The Australian Auditors General have been seen as international leaders in the application of performance auditing (variously titled 'value-for-money', 'efficiency' and 'performance' auditing). This practice has particularly been in evidence since the 1970s and has continued in various forms to the present time, across federal and state public sectors under the auspices of their respective Auditors General. However, prior research is now increasingly dated, has tended to focus on the implementation not the mature practice of performance audit and has mostly just considered practice at the Commonwealth, Victoria and NSW.

PA is now widely accepted by public sector organisations as central to good governance and the exercise of parliamentary accountability and control. The conception and practice of PA has evolved past the early impetus in the 1970s to reach a stage of maturity. Therefore, it is timely that this accounting practice receives further research attention.

## Central Objective of Study

For its central objective, this study proposes to critically investigate and map the current conception and practice of PA in the Australian public sector and its focus on the execution of performance accountability by public sector entities. While not purporting to examine the actual implementation of PA processes, this study rather focusses attention on the concept(s) of PA now being employed and the scope and focus of PAs being conducted, as well as both auditor intentions and auditee responses to the contemporary public sector audit process and report.

To meet this objective, the study will pursue a number of contributing objectives:

1. To document the recent definitions and scope of PA.
2. To identify the rationales advanced for PA development and implementation
3. To critically evaluate the major efficiency and effectiveness issues addressed in PA reports
4. To evaluate AG intentions and strategic focuses in relation to PAs
5. To document and categorise published auditee responses to PA reports

## Prior Research Knowledge

While there has been some work documenting the development and evolution of PA within Australia and overseas, there has been little work since 2001 and nothing that systematically explores the definitions, practices and conceptions across all of the Australian Auditors General.

In general, the PA related research literature has focused on the political dynamics associated with the practice. The most common focus has been on the relationships between auditors, parliament and the executive of government where the mandate, scope and practice of PA is seen as part of the growing emphasis on outcomes and performance accountability associated with the onset of New Public Management (NPM) (Leeuw, 1996; Pearson, 2014). In particular, researchers have highlighted struggles between government, parliament and auditors to control the scope and practice of PA (Hamburger, 1989), particularly where executive of government has been sensitive to any perceived incursion by performance auditors into policy assessment and critique (Radcliffe, 1998; Guthrie and Parker, 1999) or where agency executives resented critical PA assessments (Funnell, 1998).

Therefore, the political and contested nature of the scope and practice of PA is well documented. The multiple objectives of serving parliament, agency management, and the public, can produce conflicting demands and may lead to tensions where auditees or government executive would prefer to control any messages into the public domain concerning their activities and outcomes (Hamburger, 1989; Jacobs, 1998; Guthrie and Parker, 1999; Bowerman et al, 2003).

There have also been a number of researchers (Guthrie, 1987; Hamburger, 1989; Jacobs, 1998; Guthrie and Parker, 1999) who have explored the contested and changing definitions and role of PA. Even the terminology applied to this form of auditing has been found to change across time, through such labels as project auditing, efficiency auditing, comprehensive auditing, value for money auditing

and largely settling more recently in Australia as performance auditing (Guthrie and Parker, 1999). Across recent decades, there has been varying approaches to and divergences in interpretations of what PA should be reviewing, who should be conducting it and why (Hamburger, 1989). Economy, efficiency and effectiveness became focal areas of PA investigation, moving the focus of audit inquiry beyond the 'how much did it cost?' focus to include the output scrutiny focus on 'how well have actions been implemented?', 'what have they achieved?', and 'do the outputs match the original intentions?' (Guthrie and English, 1997; Pearson, 2014). While earlier forms of PA paid considerable attention to economy, as time elapsed, concepts of efficiency and effectiveness moved to centre stage and were found to be constructed through PA implementation by auditors themselves (Anand, 1988; Radcliffe, 1999). Nonetheless, the definition and relationship between efficiency and effectiveness has been found to be a continually negotiated and politically sensitive process, efficiency and effectiveness at times being in tension, and with governments and auditors often at pains to steer clear of a policy commentary in PA reports (Adams, 1986; Guthrie, 1989). Nonetheless, effectiveness was being seen by researchers to be increasingly specified and accepted by the various stakeholders in the PA process (Guthrie and Parker, 1999). Along this developmental route, a virtual halfway house of auditing the controls designed to produce efficient and effective outcomes was often resorted to by legislators and auditors alike (Hatherly and Parker, 1988; Leeuw, 1996; Radcliffe, 1998; Guthrie and Parker, 1999). This was seen to carry a risk of avoiding the task of rendering accountability to parliament and community for actual outcomes. Nonetheless, researchers did find examples of auditors who while apparently complying with controls focussed limitations of PA scope, actually did produce performance audits that addressed substantive assessments of actual outcomes in terms of efficiency and effectiveness (Hatherly and Parker, 1988; Guthrie and Parker, 1999). Prior research (Anand, 1988; Guthrie and English, 1997; Keen, 1999; Radcliffe, 1999; Lonsdale, 2000) has also examined how performance audits have been implemented by auditors in the UK, Australia, Canada, Finland, France, Sweden and the Netherlands. These have included examinations of the resourcing of performance audits (Anand, 1988), methods of evidence collection and analysis (Lonsdale, 2000), audit technology changes (Radcliffe, 1998), how performance auditors arrive at their judgements (Keen, 1999), and the general social construction of PA practice by auditors (Radcliffe, 1999).

Auditee responses to PA reports represent another area that has attracted researchers' attention. Early studies such as (Adams, 1986) found a growing level of acceptance amongst government agencies. However, this was by no means a unanimous response, with tensions and public disagreements between auditors and auditees emerging in the wake of some PA reports (Hamburger, 1989). This appeared to be more likely when reports and recommendations focussed upon issues of effectiveness (Hatherly and Parker, 1988). Accordingly, some research suggested a greater focus upon the nature and design of communications between auditors and auditees in an attempt to improve auditor presentation of and auditee responses to such reports (Leeuw, 1996). Acceptance of PA report recommendations by government executive remains a little researched area, with some indications of significant levels of acceptance emerging (Lonsdale, 2000).

Much of this research was conducted and published in the 1980s and 1990s, so that the past 10 years have seen scant attention paid by any accounting researchers to the contemporary state of public sector PA in Australia and overseas.

## **Research Design**

The project investigated the AG reports to parliament, their PA reports, and their perceptions and intentions through interviews with Auditors General and their senior officers across the Australian jurisdictions. This provides both a longitudinal and contemporary understanding of the PA rationales, focus, trends, target audiences, and resources. The study covers the period from 2001 to 2012. The project employed qualitative analysis of the of Auditor General reports to parliament, PA reports, Auditor General pronouncements, and published auditee responses. During 2013, sixteen semi-structured open-ended interviews were conducted with past and present Auditors General, Deputy and Assistant Auditors General, executive directors and senior managers within the AG offices.

Between 1 and 3 interviewees were conducted in each jurisdiction and they were generally for one to two hours. All interviews were recorded, transcribed and analysed in depth. Between 2001 and 2012, over one thousand reports were produced with over five hundred presented by Australian National Audit Office (ANAO). The number of these reports published between 2001 and 2012 is summarised in Table 1 in Appendix. We examined the PA reports for all Australian jurisdictions other than South Australia<sup>1</sup>. As shown in Table 1 below, all of the reports, except the follow-up PA, produced between 2001-02 and 2011-12 for the ACT, NSW, WA, NT, TAS, QLD, and VIC jurisdictions were examined. Because of the large number of PA reports produced by the ANAO, the researchers chose to focus their examination upon those PA reports which are summarised in the AG Annual Reports to parliament as these reflect what the Auditor General considered to be key issues, any change in the definition of PA and any significant change in PA practice. In addition, all auditee responses to PA reports were analysed for the sample of PA reports originally examined in the years 2001-02 and 2011-12.

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<sup>1</sup> South Australian AG performance audit reports were not examined or discussed, since South Australia is the only jurisdiction in Australia that has not and does not to date produce stand-alone performance audit reports.

*Table 1: Performance Audit Reports and Auditee Response Samples Examined*

	States and Territories: PA Population Examined	ANAO: PA sample Examined	States & Territories: All Auditee Responses to PA Reports	ANAO: All Auditee Responses to PA Sample	VIC: All Auditee Responses to PA Sample
2001-02	65	8	59	8	
2002-03	55	7			
2003-04	49	5			
2004-05	47	5			
2005-06	53	17			
2006-07	51	13			
2007-08	57	4			
2008-09	62	8			
2009-10	69	7			
2010-11	76	14			
2011-12	72	13	67	13	7
TOTAL PA	656	101	126	21	7

## **Plan of Report**

This report will first address the emergent concepts and definitions being applied to PA by Auditors General (AGs) across the Australian public sector jurisdictions, moving on then to consider their strategic orientation towards and their resourcing of PA. It will then evaluate the balance of PA focus upon economy versus efficiency versus effectiveness, both with respect to controls designed to pursue these, and with respect to actual auditee organisational outcomes. Auditor motivations for implementing PA and the target audiences upon whom they elect to focus are the next subject of discussion, followed by an analysis of areas of activity covered by PA recommendations. Finally, auditor - auditee relationships and auditee responses to the performance will be considered.

## **Emergent Concepts And Definitions**

PA is subject to a variety of definitions and concepts that it can encompass. As a first level examination, the researchers examined the terms and language used, particularly in the AG reports to parliament. These reports were seen as an important indicator of how PA is understood and practiced by the different AGs. South Australia has been excluded from this discussion because they do not produce stand-alone PA reports.

The first question is whether there is evidence of a change or evolution in how the term PA is used and what it covers. During 2001-2012, most of the AGs (ANAO, ACT, VIC, NSW and TAS) used the term PA consistently in their Annual Reports to parliament. There were terminology changes both in Western Australia and Queensland. In the 2009-10 Annual Report, the WA AG Office changed the audit terminology from 'Performance Examination' to PA. In the 2010-11 Annual Report, QLD AG office commenced the transition of audit terminology from 'Performance Management Systems' to PA (in that year employing both terms) and finalised its transition in 2011-12. Therefore, although there have been some terminology differences all of the Australian AGs have now converged on the PA terminology.

#### Concepts and Definitions – what do we mean

1. (Economy) Efficiency and Effectiveness – Which terms are used
  - 1.1. NSW, VIC, QLD, NT and TAS - all three terms are used
  - 1.2. ACT, WA and ANAO – economy and efficiency is increasingly the prime focus
2. Compliance, accountability and value for money
  - 2.1. These concepts are present but secondary
3. Examination of outcome or examination of the controls to ensure outcomes
  - 3.1. Mostly controls – ANAO, NT, QLD, TAS  
Mixed – Vic, ACT, NSW WA

### **Economy, Efficiency and Effectiveness**

PA focus on 'economy', 'efficiency' and 'effectiveness' has been observed in various degrees across Australian jurisdictions. Thus, two categories can be distinguished:

1. NSW, VIC, QLD, NT and TAS AG offices consistently defined PA with a focus on 'economy', 'efficiency' and 'effectiveness'. They employed these concepts and terminology with almost identical frequency each year during 2001 – 2012.
2. ACT, WA and ANAO used the terms 'efficiency and effectiveness' frequently each year during 2001 – 2012. However, the term 'economy' was employed in varying degrees in:
  - a) Only in ACT Annual Report 2001-02;
  - b) WA Annual Reports 2007-08 to 2011-12 used 'efficiency' only once in each Annual Report;
  - c) ANAO used the term 'economy' in the Annual Reports 2001 – 2012, however the frequency declined from 2008-09 to 2011-12.
  - d) Thus, while all three concepts of 'economy', 'efficiency' and 'effectiveness' have been observable over the past decade, the concept of 'economy' has increasingly shown signs of gradually receiving lesser emphasis, with 'efficiency' and 'effectiveness' becoming the prime foci for PA.

### **Compliance, Accountability and Value for Money**

These three concepts that related to PA were also variously in evidence during the period studied. They were clearly discussed as part of AG statements about and definitions of their PA activities.

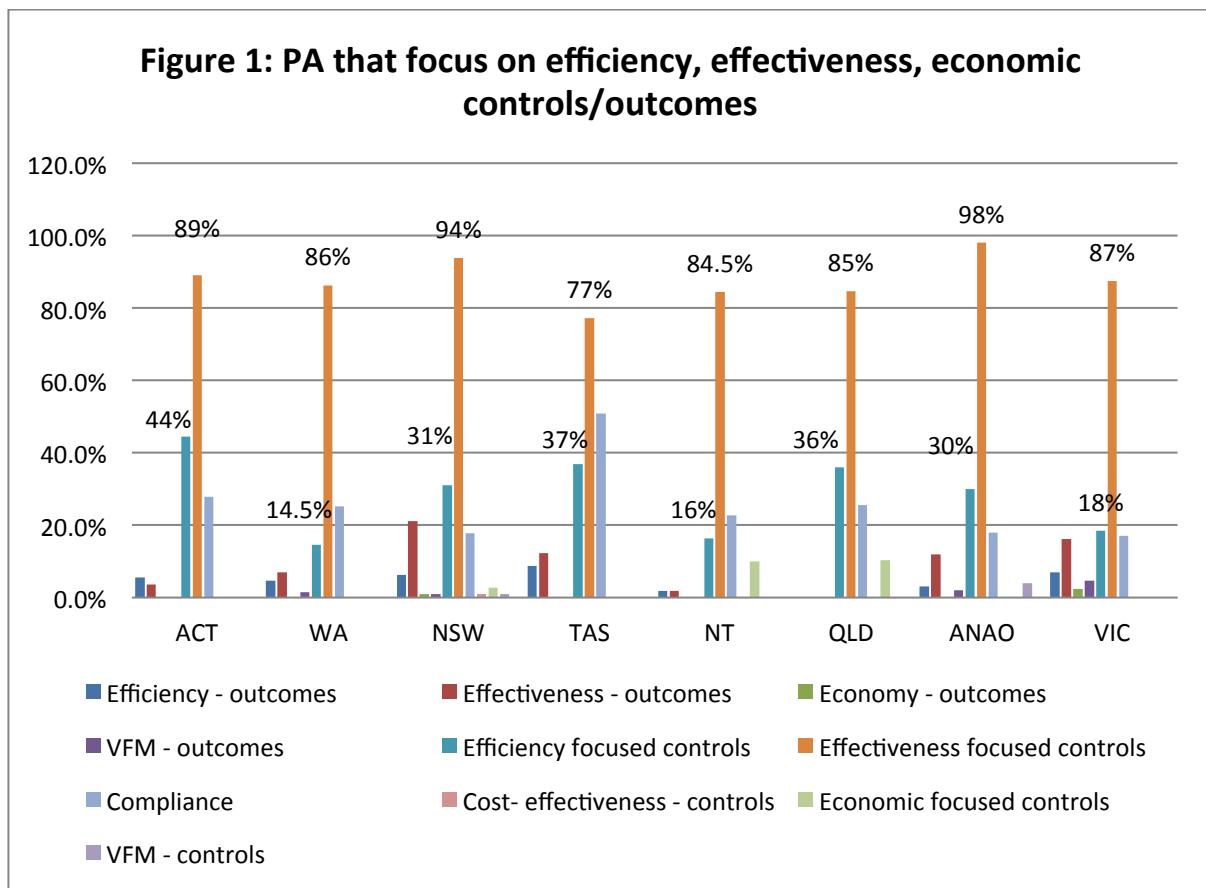
1. ACT and WA AG offices employed the term 'accountability' in varying frequencies:
  - a) ACT Annual Reports 2001 – 2012, used 'accountability' as frequently as the terms 'efficiency' and 'effectiveness';
  - b) WA Annual Reports 2001 – 2012, used 'accountability' less frequently than the concepts of 'efficiency' and 'effectiveness'.
2. ACT, NSW, ANAO and VIC AG offices used the term 'compliance' less frequently than the terms 'efficiency' and 'effectiveness' and in the following years:
  - a) ACT Annual Reports 2001-02, and 2004-05 – 2006-07;
  - b) NSW Annual Reports 2001-02 – 2003-04, and in 2011-12;
  - c) ANAO Annual Reports 2001 – 2011;
  - d) VIC Annual Reports 2001 – 2012.
3. NSW, ACT and QLD AG offices used the term 'Value for Money' less frequently than the terms 'efficiency' and 'effectiveness' and in the following years:



- a) NSW Annual Reports 2001 – 2012;
- b) ACT Annual Report 2011-12;
- c) QLD Annual Reports 2005-06 – 2007-08.

Thus, these concepts of ‘accountability’, ‘compliance’ and ‘value for money’ were present in AG discourse, but distinctly secondary in apparent priority to the concepts of ‘economy’, ‘efficiency’ and ‘effectiveness’. ‘Accountability’ was less attached to the PA discourse, while ‘compliance’ arguably washed into the PA definitional discourse in association with the traditional compliance audit functions of AGs. ‘Value for money’ was in a distinct minority, possibly being largely subsumed by or associated with any focus on the concept of ‘economy’ already alluded to above.

Figure 1 shows the proportion of PA reports that focus on economy, efficiency, effectiveness and value for money. This reveals that the majority of PA across Australian audit offices focusses on evaluating controls designed to facilitate effective outcomes. Some performance audits do focus on evaluating the effectiveness of actual outcomes, mainly in NSW, VIC, TAS, ANAO and with lesser frequency in WA, ACT and NT. A small number of performance audits focus on evaluating controls for producing economy: TAS (10%), QLD (10%) and NSW (2.7%). A similar minority group of performance audits focus on controls for value for money: ANAO (4%) and NSW (1%). Some performance audits have focussed upon actual outcomes with respect to economy (VIC - 2.3% and NSW - 1%). Finally, a small number of performance audit reports focus on evaluating actual value for money outcomes: VIC (5%), ANAO (2%), WA (1.5%), and NSW (1%). So, while historically performance auditing in its earliest manifestations may have had strong orientations towards economy and efficiency, more recently a dominant focus upon examining controls designed to ensure effective outcomes has moved to centre stage.



### Performance Audit focus on “Outcomes or Controls”

One of the significant choices that public sector auditors face in relation to the definition and practice of PA is the decision to take either a compliance orientated focus on the veracity of controls designed

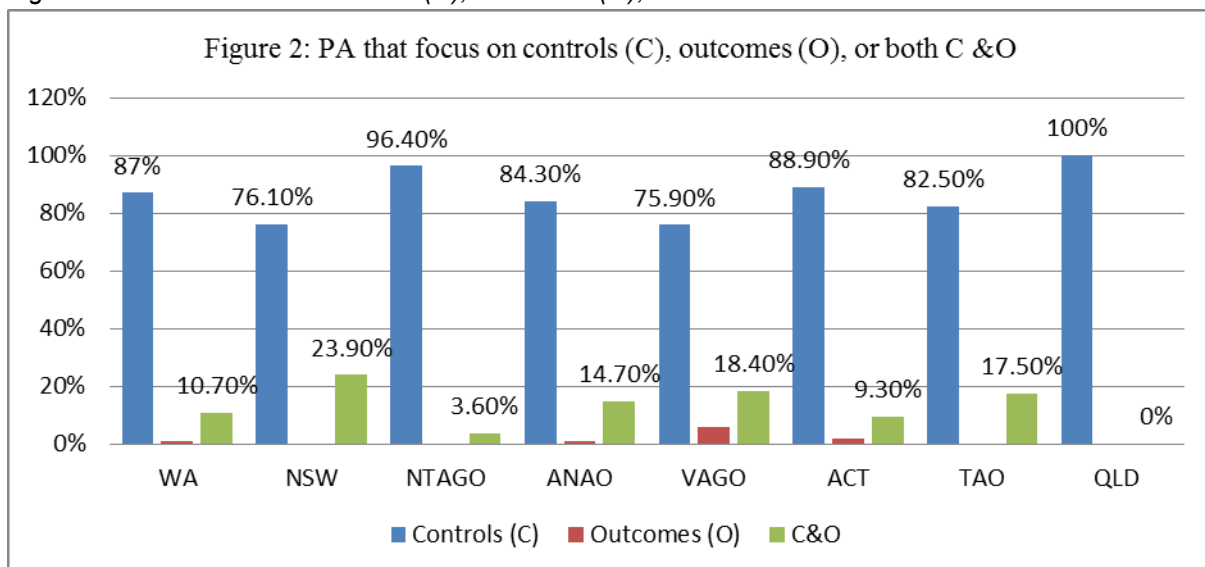
to produce economy, efficiency and effectiveness or a more evaluative focus and offer opinions and recommendations upon the economy, efficiency and effectiveness of actual program outcomes. Historically, there has been a tendency for them to publicly claim a focus upon the former. Nonetheless, some prior research has suspected that in practice, there may be a combination of the two foci actually being pursued. This study finds that in terms of their public definitions, the following observations on AG offices can be made:

1. ANAO and NT Annual Reports 2001 – 2012 PA definitions focused mostly upon ‘controls’;
2. Generally, QLD and TAS Annual Reports 2001 – 2012 PA definitions focused only upon ‘controls’. In the recent years, both QLD and TAS have introduced for the first time PA definitions focused upon ‘outcomes’ as well as ‘controls’ as below:
  - a) QLD Annual Reports 2009 – 2011;
  - b) TAS Annual Reports 2009 – 2012.

1. Victoria, ACT, NSW and WA Annual Reports define PA focus in many different ways: sometimes on ‘controls’, sometimes on ‘outcomes’ and sometimes on both ‘outcomes and controls’. However, the frequency of PA definition increased more upon focus on:
  - a) ‘controls’, VIC Annual Reports 2004 – 2012;
  - b) ‘outcomes and controls’, WA Annual Reports 2007 – 2012;
  - c) ‘controls’, ACT Annual Reports 2007 – 2012;
  - d) ‘controls’, all NSW Annual Reports, except for 2001-02, 2004-05 and 2011-12, where PA definition focus on ‘outcomes’ emerges’ too.

Thus, across the states, territories and Commonwealth, there has been varying discourse engagement with declaring a focus on performance auditing outcomes or a focus upon performance auditing controls designed to produce outcomes. This diversity and the difference between the jurisdictions is reflected in Figure 2.

Figure 2: PA that focus on controls (C), outcomes (O), or both C & O



From our examination of performance audit reports it is possible to determine the extent of actual engagement with performance auditing of controls and/or outcomes. Figure 1 shows the proportion of PA reports with a focus on either controls, or outcomes, or a combination of controls & outcomes. As is evident, the majority of reports do focus upon controls for economy, efficiency and effectiveness. A few reports do focus specifically on both controls and outcomes, these being mainly produced by AGs in NSW, VIC, TAS, ANAO, WA, ACT and to a lesser extent in the NT. Only very few reports focus on outcomes, being in VIC (5.7%), ACT (1.9%), ANAO (1%) and WA (0.76%).

Interviews with Auditors General and their senior colleagues reinforced this overall definitional picture. Value for money and economy were cited as PA definitional components by very few, with efficiency

and effectiveness of operations and/or service delivery being the prime focal concepts constituting their PA definition.

## **Performance Audit Resourcing**

Across the jurisdictions, PA is funded annually by parliamentary appropriation. Generally, the AG has discretion over the proportion of allocated funding to be spent on PA compared with financial and compliance auditing. Indeed, financial audits may cross subsidise the PA function as funds are diverted from the former to support the latter. In some cases, PA is funded by separate appropriation to that of financial auditing. Regardless, the available funding remains as a significant constraint upon the extent and scope of PA. In some instances, government may reject requests for additional funding to support PA, despite general parliamentary interest and support. This may in part be motivated by political sensitivities of governments who may wish to avoid risk of themselves and their programs being subject to any possible criticism.

Across different jurisdictions, PA staffing has a highly variable profile. It ranges from dedicated PA staff operating in a dedicated PA unit, to PA staff who work integrated into financial and compliance audit teams, to all AG staff addressing both PA and financial auditing work, to PA involving auditors contracted externally. The ratio of PA staff to financial audit staff varies up to an approximate maximum of 30% of total audit staff. External contracting may be undertaken due to pressures of workload or due to particular expertise required by a particular performance audit. From time to time PA constraints are caused by budget restrictions on staffing for PA, PA staff recruitment and turnover. While in some jurisdictions, financial audit staff are employed for PA, financial auditors can experience difficulties in adapting to PA. Generally, PA is seen to require a wide range of disciplines and skills including analytical, investigative, interpretative, data management, problem solving and inter-personal skills, as well as writing abilities.

In terms of current PA funding and expenditure relative to the funding expended on financial auditing, AG offices differ significantly. They range from PA accounting for approximately 15% (or less) of total audit expenditure (e.g. SA, QLD, NT, NSW, TAS), to between 30% and 50% of total audit expenditure annually (e.g. ACT, ANAO, VIC, WA). Interestingly, across most jurisdictions, interviewees expressed ambitions and expectations for the balance between expenditure on PA versus financial auditing to shift significantly in the direction of PA. Intended emphasis upon PA from a funding perspective appeared to be moving towards investing between 20% and 75% in PA. A number of jurisdictions expressed ambitions to commit 50% to 75% of their funding to PA. So, the historic momentum of AG commitment to PA shows no signs of abating.

## **Performance Audit Focus**

This study examined PA focus in two respects. One pertained to PA focus on areas of public sector activities and services. The other encompassed PA focus upon the performance dimensions of economy, efficiency and effectiveness, through controls and/or actual outcomes. These foci are examined through analysis of PA reports published 2001-2012 and through interviews with AGs and their senior colleagues. One of the interesting developments in both the ANAO and in some of the state jurisdictions was a growth of audits which cut across agencies such as the business support process audits (BSPAs) conducted by the ANAO during 2001-02 and 2006 – 2008, protective security audits conducted by the ANAO in 2006-07 and the Performance Management Systems 'studies' (2001-02 to 2005-06) and 'Audits of Information Technology Systems' (2006-07 to 2011-12) conducted by the NT Auditor General. These PA studies did not focus on one specific entity, but made recommendations that cut across many public sector entities.

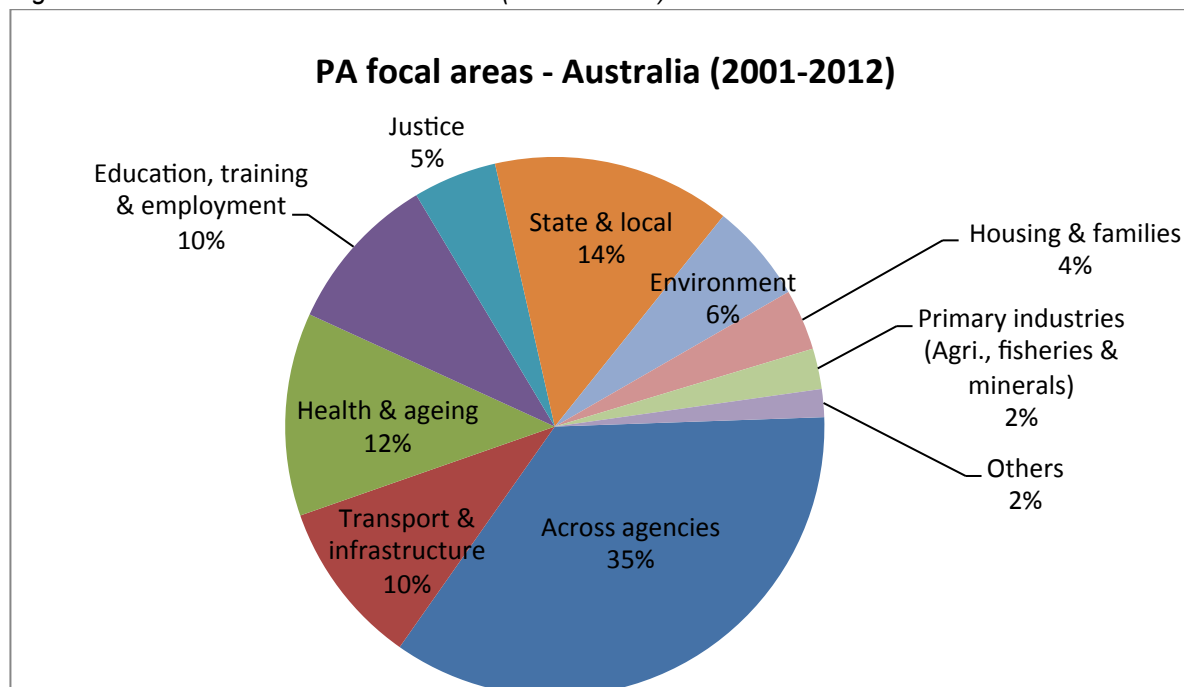
## Activity and Service Areas

The broad focus on PA projects conducted by the state and territory AGs is evident from Figure 3 and Table 2. One important issue is the significance of projects that cut across multiple agencies and these represent 35% of performance audits produced. A majority of the other audits focussed on state and local government issues (14%), health and ageing (12%), transport and infrastructure (10%), and education, training and employment (10%). Leading contributors to PA across agencies, in transport and infrastructure, health and ageing, and state and local government were NSW, VIC and WA. Nonetheless, evidence of a wide spectrum of public sector activity areas being subject to PA is clearly present and is widespread across the states and territories.

Table 2: PA focal areas across Australia (2001 – 2012)

	Across agencies	Transport & Infrastructure	Health & ageing	Education, training & employment	Justice	State & local	Environment	Housing & Families	Primary industries (Agriculture, fisheries and minerals)	Others (Aid, Non for prof. organisations, tourism, Dep of Bussines &Inovation)	Total PA per State/ Territories
ACT	28	5	9	4	4	8	5	3	0	3	69
NSW	30	21	15	7	6	16	8	3	4	1	111
NT	15	5	7	11	5	7	1	3	1	2	57
QLD	17	2	2	4	1	7	3	3	1	0	40
TAS	14	0	6	3	3	11	2	1	0	1	41
VIC	53	24	27	24	10	28	13	6	3	3	191
WA	75	8	14	10	4	16	7	5	7	1	147
Total PA per focal area	232	65	80	63	33	93	39	24	16	11	656
PA per focal area (%)	35%	10%	12%	10%	5%	14%	6%	4%	2%	2%	100%

Figure 3: PA focal areas across Australia (2001 – 2012)

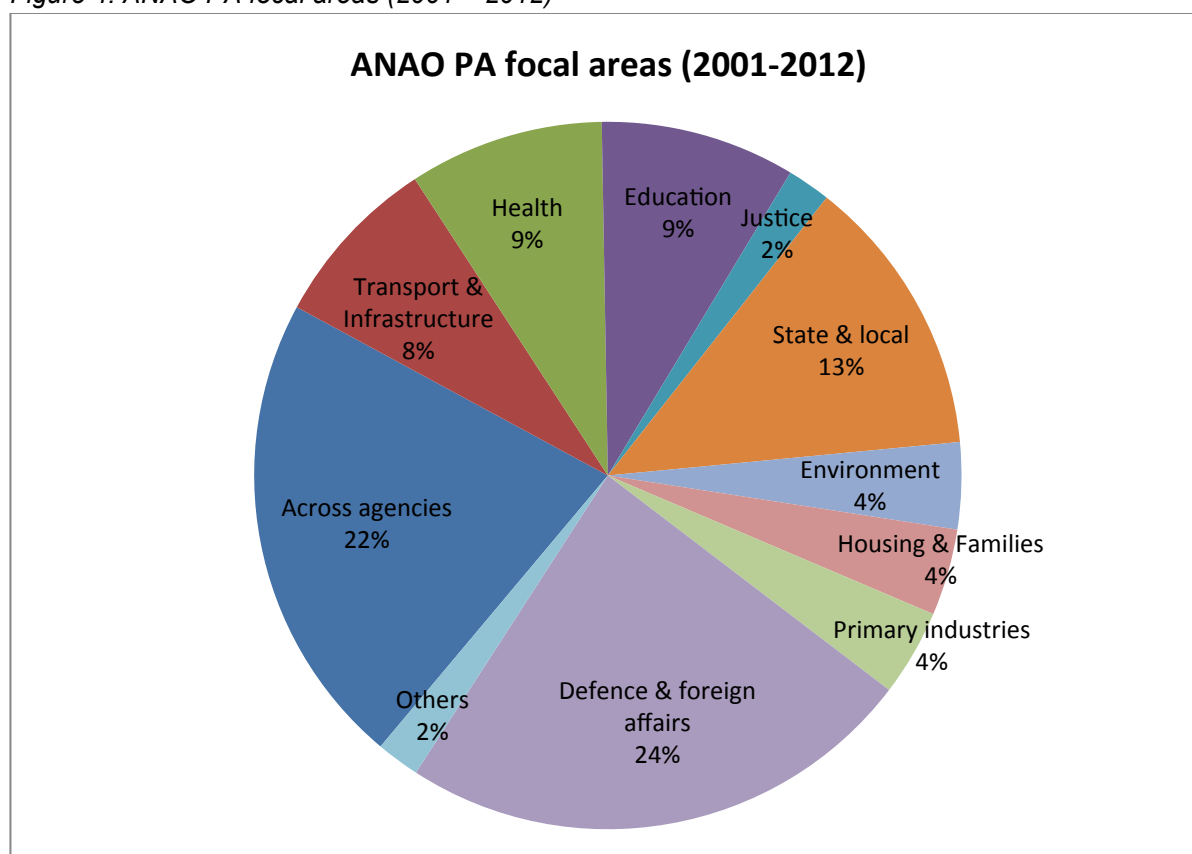


For the ANAO, as presented in Table 3 and Figure 4, performance audits across agencies also figures prominently (22%). The most significant PA focal area for ANAO reports was on defence and foreign affairs (24%), followed by focal areas on: state and local government (13%); education, training and employment (10%); health and ageing (12%) and transport and infrastructure (10%).

Table 3: ANAO PA focal areas (2001 – 2012)

	Across agencies	Transport & infrastructure	Health & ageing	Education, training & employment	Justice	State & local	Environment	Housing & families	Primary industries (Agriculture, fisheries and minerals)	Defence & foreign affairs	Others (Arts; Industry, tourism & resources)	Total PA per State/Territories
2001-02	4			1						3		8
2002-03	1		2	2						1	1	7
2003-04	3				1					1		5
2004-05			2			2				1		5
2005-06	4	1	2	1		2				6	1	17
2006-07	1	1	1	1		3			3	3		13
2007-08	1	1				1			1			4
2008-09	1					2				5		8
2009-10	2	1	1	1		1				1		7
2010-11	1	3		2		2	2	2		2		14
2011-12	4	1	1	1	1		2	2		1		13
Total PA per focal areas	22	8	9	9	2	13	4	4	4	24	2	101
(%)	22%	8%	9%	9%	2%	13%	4%	4%	4%	24%	2%	100%

Figure 4: ANAO PA focal areas (2001 – 2012)



Interviewees were questioned regarding focus areas of activity they were targeting. Again, responses supported and explained the observed focal areas identified in the PA reports analysis above. Several AGs mentioned an increasing commitment to across agency audits and many observed no major changes in topics of focus over time. This is also evident in the researchers' closer examination of area of activity focus for performance audit reports year by year in the study period. Several

interviewees noted an attempt by their office to cover a broad range of issues, agencies and activity areas, providing balanced selection and coverage of auditees. Some did refer to the publicly announced strategies and programs of government, the profile of issues, and the interests of parliament, media and public as influences that conditioned audit area selections to some degree. In terms of future directions, these factors were seen to be significant, but reference was also made to the Auditor General's discretion, activity areas receiving high percentages of the government budget, parliamentary advice, and government objectives as influential in PA area choice.

## **Performance Dimensions**

Earlier in this report, the definitions of PA employed by the AGs across Australia were analysed. This related to their declared focus on either evaluating or making recommendations regarding the veracity of controls designed to produce economy, efficiency and effectiveness, or evaluating and recommending about the economy, efficiency and effectiveness of actual outcomes. It was found that across the states, territories and Commonwealth, there has been varying discourse emphasis upon a PA focus on outcomes or a focus upon controls designed to produce outcomes. For the period 2001 – 2012, our analysis of the complete population of PA reports produced by AGs for all states and territories and by the ANAO are summarised for Australian states and territories in Figure 5 and Table 6, and for the ANAO in Figure 5 and Table 4<sup>2</sup>.

For the states and territories, controls for effectiveness received the greatest PA attention across the period. However two other observations are notable from inspection of both Figure 5 and Table 4. First, effectiveness receives major attention in the forms of auditing controls for assuring effectiveness, auditing effectiveness of actual outcomes, auditing a combination of controls for effectiveness and effective outcomes, and auditing a combination of efficiency and effectiveness of outcomes and controls for these<sup>3</sup>. So, effectiveness emerges as a major subject of PA across the states and territories. Second, outcomes also emerge as a major PA focus. It appears in 4 of the 6 categories of focus represented in Figure 5 and Table 4. So, while controls are an important focus for PA, the AGs in the states and territories are paying major audit attention to auditee outcomes and to auditee performance effectiveness.

The comparison across states and territories presented in Table 4, reveals NSW, VIC and WA as the producers of a significant majority of PA reports for the period examined. VIC is particularly notable in terms of its number of PA reports focussing upon effectiveness of actual outcomes, effectiveness of outcomes and controls for effectiveness combined, and the combination of efficiency and effectiveness outcomes and controls for efficiency and effectiveness. Thus, VIC has been a major driver of the effectiveness focus and the outcomes focus.

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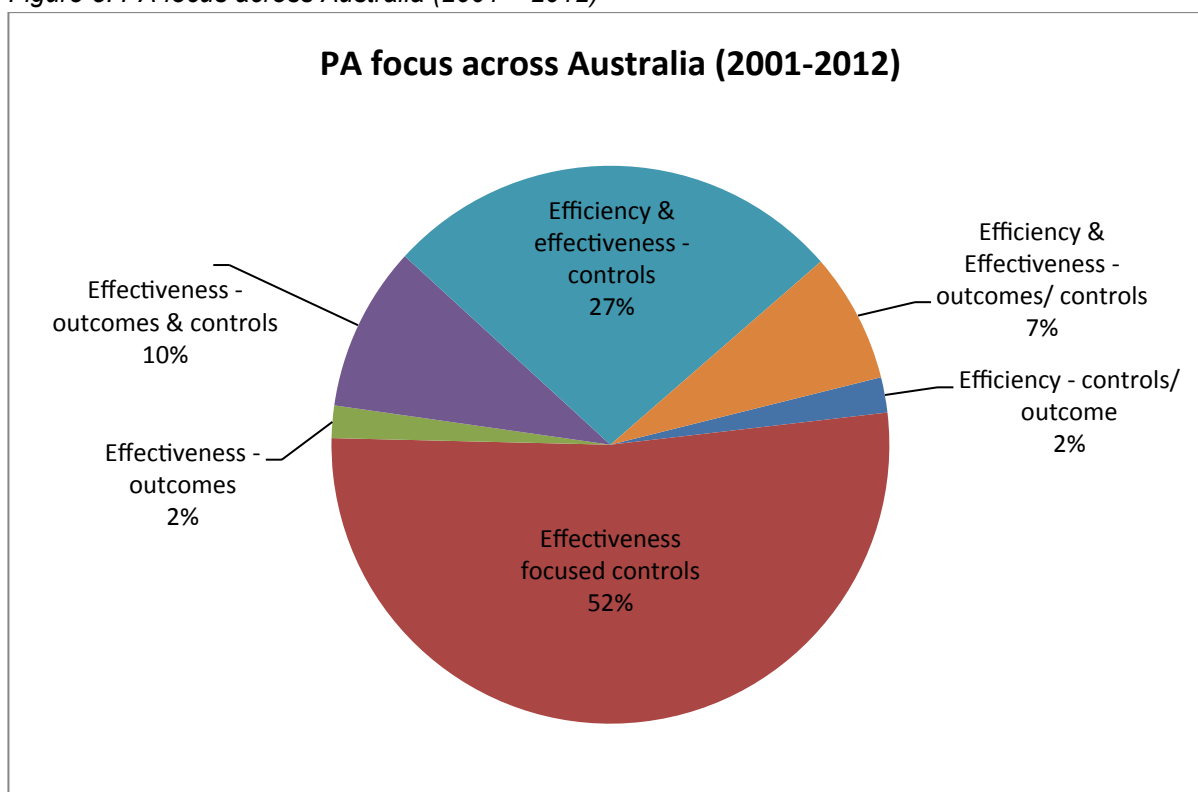
<sup>2</sup> States and territories data is shown separately from ANAO data because the population of PA reports produced by states and territories for the 2001-2012 period were analysed, whereas due to the significant volume of PA reports produced by the ANAO during that period, a sampling strategy was employed. That sampling strategy has been earlier outlined as selecting those ANAO PA reports which are summarised in the AG Annual Reports to the commonwealth parliament and are signalled as key issues requiring the attention of public sector entities.

<sup>3</sup> These combinations represent performance audits where these factors were present and audited in combination and not separable.

Table 4: PA focus across Australia (2001 – 2012)

	Efficiency - controls/ outcomes	Effectiveness focused controls	Effectiveness - outcomes	Effectiveness - outcomes & controls	Efficiency & effectiveness - controls	Efficiency & effectiveness - outcomes & controls	TOTAL PA
ACT	3	30	0	3	21	8	65
NSW	2	52	0	9	38	9	110
NT	1	31	0	2	18	1	53
QLD	0	24	0	0	16	0	40
TAS	1	16	0	3	18	4	42
VIC	3	97	10	31	32	14	187
WA	2	56	1	8	14	8	89
Australia wide	12	306	11	56	157	44	586
%	2%	52%	2%	10%	27%	8%	100%

Figure 5: PA focus across Australia (2001 – 2012)



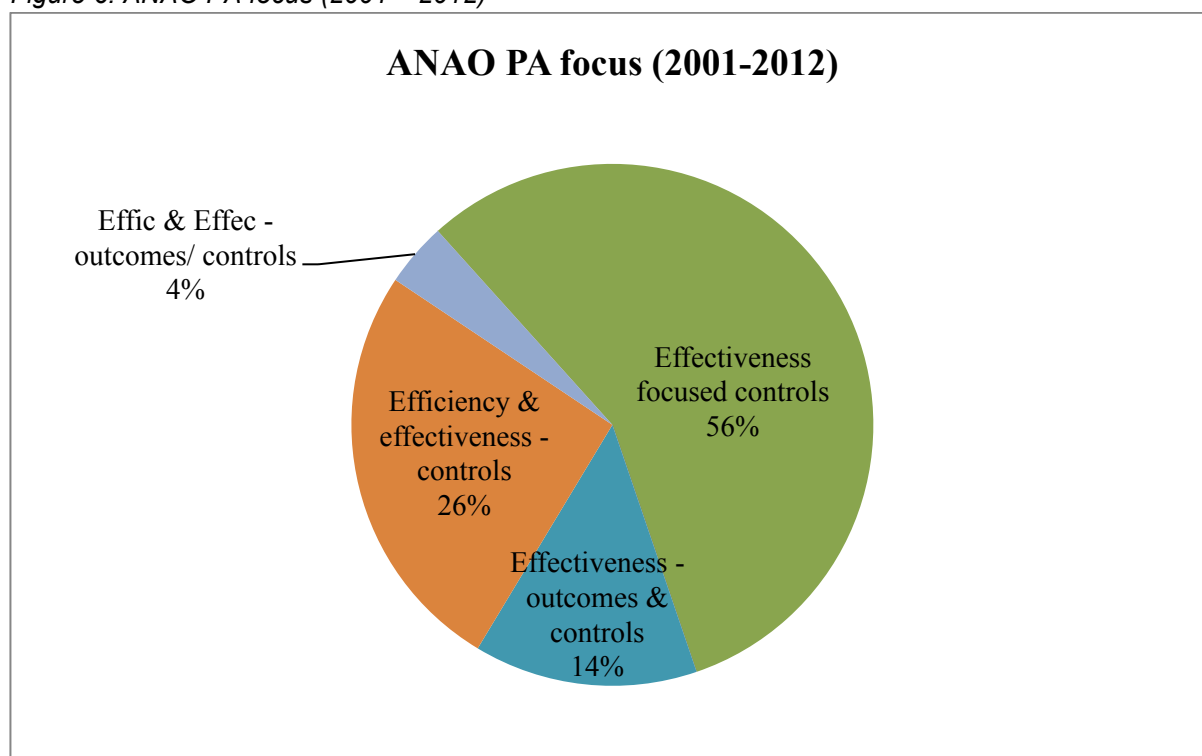
For the ANAO, its focus is similar to that of the states and territories AGs. Table 5 and Figure 6 reveal a dominant focus on auditing controls for effectiveness, but at the same time points to a commitment to auditing effectiveness outcomes and controls as a combination or in combination with efficiency.

Thus, again in the case of the ANAO, as with the states and territories, AG focus is clearly fixed firmly on effectiveness of outcomes and controls for effectiveness (4 of 6 categories) with a focus on outcomes or controls for outcomes also looming large.

Table 5: ANAO PA focus (2001 – 2012)

	Year	Efficiency - controls/ outcomes	Effectiveness focused controls	Effectiveness - outcomes	Effectiveness - outcomes & controls	Efficiency & effectiveness - controls	Efficiency & effectiveness outcomes / controls	Total sample of PA
ANAO PA examined	2001 - 2012	0	57	0	14	26	4	101
(%)		0%	56%	0%	14%	26%	4%	100%

Figure 6: ANAO PA focus (2001 – 2012)



Investigation of the performance dimensions focussed upon in PA extended to interviews with AGs and their senior colleagues across all Australian jurisdictions. What emerged from those interviews was a stated and pronounced emphasis upon auditing effectiveness and outcomes, with actual effectiveness pursued in itself or in combination with efficiency and through examining controls designed to ensure effective performance. These assessments could occur longitudinally or against predetermined benchmarks. This focus on effectiveness and outcomes was repeatedly stated as the dominant agenda by the vast majority of interviewees, and often included a secondary focus on efficiency, with only a small minority retaining a focus on economy. Political sensitivities, for example of governments was rarely alluded to. While in earlier phases of PA development, this may have been a concern, it no longer appeared to be so. When inquiry was made into drivers of this focus, the type of activity area being audited, as well as its size and diversity was seen to be an influence, as was any indication that the auditee organisation did not appear to be delivering intended outputs. It was also generally considered that effectiveness was technically more amenable to PA than efficiency and



that the former held greater attraction for auditors and potentially the target audience, including parliament and the public. The interest of parliament and the public in public sector agency effectiveness emerged as a particular motivation. Thus, interviews confirmed the underlying agenda that has produced the findings from PA report analysis just presented above. Indeed, it indicates an even stronger general commitment to the effectiveness focus than the past reports indicate, and may well suggest a growing trend towards an effectiveness focus in Australian PA.

In terms of a performance emphasis on outcomes or controls, the majority of interviewees declared an outcomes focus. This was expressed in terms of reviewing actual outcomes, or investigating policy impact, or examining policy implementation and consequences. Again, only a small minority of interviewees opted for a predominantly controls, process and system focus. The movement towards an outcome focus appeared to reflect a variety of influences ranging from broadened PA mandate, PA processes maturity, AG office governance and administrative changes, and an appreciation of the relationship between outcomes and controls. Again, these interviews support the trend seen in the PA reports examined above and suggest at least a consolidation of this focus in the future.

## Targeting Stakeholders

Just who are the key performance audit report audiences being targeted by AGs? While legislated remits might offer a foundational guide, they do not necessarily provide a comprehensive picture of the stakeholder audiences being targeted and engaged by PA. This study examined the PA reports produced by AGs for two sample years: 2001-02 and 2011-12 and also interviewed AGs and their senior colleagues to ascertain their attitudes and audience priorities.

### Publicly Declared Motivations and Target Audiences

Examining all Australian states and territories with the exception of VIC and ANAO (whose large volume PA reports were separately sampled for the 2001-02 and 2011-12 years), reveals a profile of stakeholders and issues that triggered PA. This is shown in Figure 7. In both sample periods, requests or expressed interest from the public, media, and auditees constituted a minority of reported triggers for performance audit, although it is notable that the percentage of those triggers increased significantly between 2001-02 and 2011-12 from a total of 5.5% to 13% of total triggering motivations for the conduct of PA investigations. Government and parliamentary interest and requests accounted for major influence on PA selection, however their percentage of total triggers fell from 34% to 19% between the two sample periods. Self-determined audit triggers reported in PA reports constituted the majority of PA motivations, being a theme regarded as significant by the AG, or a problem or challenge considered meriting attention, or a cyclically repeated thematic investigative area. These constituted 60% of total triggering motivations in 2001-02 and 69% in 2011-12. What can be said in summary is that AG self-determined PA selection has been the dominant PA trigger, but that government and parliament, and external stakeholder interests and requests are also key driving influences on performance audits selected for implementation.

Examining VIC and ANAO PA report samples also shown in Figure 7 and Table 6 for the two sample years of 2001-02 and 2011-12, provides a useful comparison with the other Australian jurisdictions discussed above. Again for both ANAO and VIC AGs, in both sample periods, requests or expressed interest from the public, media, and auditees constituted a minority of reported triggers for performance audit. In contrast to other Australian states and territories, for ANAO PA, the percentage of those triggers remained stable between 2001-02 (8%) and 2011-12 (9%) sample periods. For VIC, it fell from 9% to zero. Self-determined audit triggers reported in PA reports for both ANAO and VIC jurisdictions constituted the major PA motivations. These were a theme regarded as significant by the AG, or a problem or challenge considered meriting attention, or a cyclically repeated thematic investigative area. These constituted 67% (ANAO) and 61% (VIC) of total triggering motivations in 2001-2 and 44% (ANAO) and 77% (VIC) in 2011-12. With respect to PA triggered by government or parliamentary interest or request, these constituted 25% (ANAO) and 17% (VIC) of triggers in 2001-

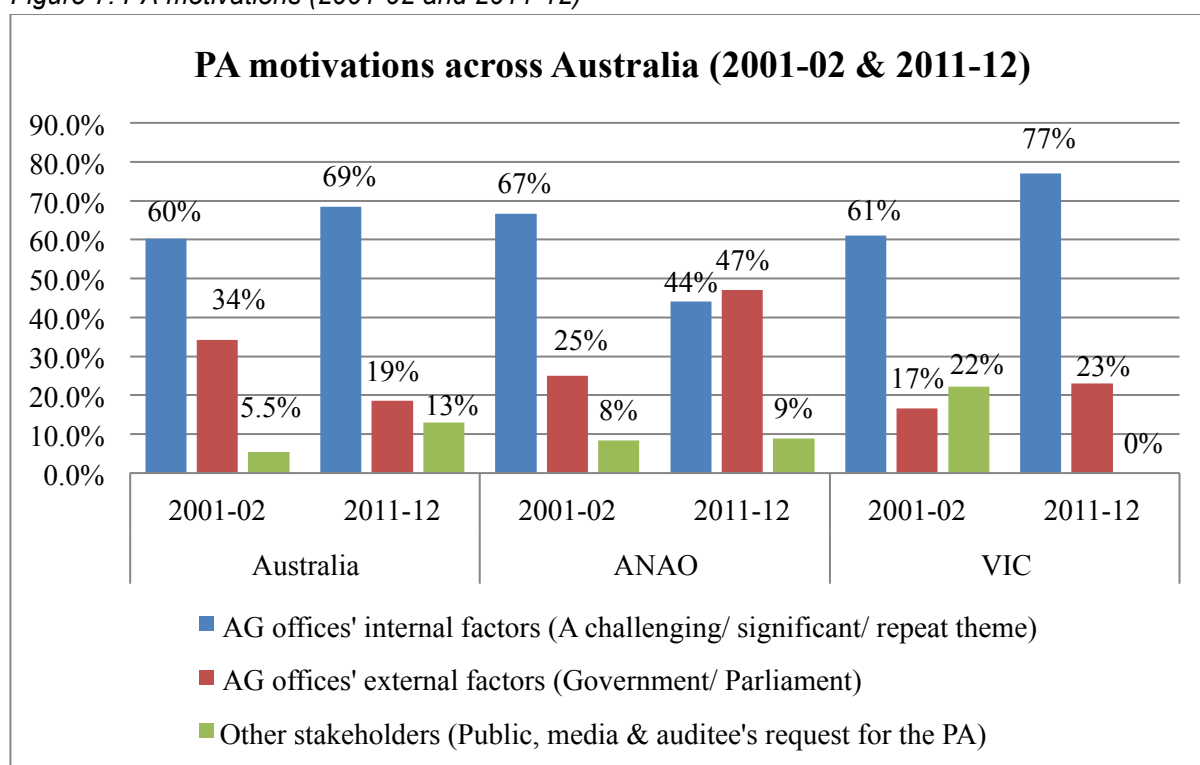
02 and 47% (ANAO) and 23% (VIC) of triggers in 2011-12. So, as with the other states and territories, both AG self-determination as well as government and parliamentary interests and requests are key driving influences on performance audits selected by the ANAO and VIC AGs for implementation.

Table 6: PA motivations (2001-02 and 2011-12)

PA motivations	Australia		ANAO		VIC	
	2001-02	2011-12	2001-02	2011-12	2001-02	2011-12
A significant theme	15	15	4	1	6	2
A problem/ challenge	16	9	2	10	2	4
A repeat investigation/ theme	14	9	2	4	3	4
Government objectives/ requests/ agreements are being achieved	18	7	3	9	2	3
Parliament's request	7	3		7	1	
Public interest/ request	2	2		1	3	
Media interest/ request	1	0		2		
Auditee's request	1	3	1		0	0
Other	0	2			1	
Number of PA analysed	74	41	8	13	8	6

Note: One PA may have more than one motivation. This data represents the population of PA for 2001-02 and 2011-12 for all states and territories, except for ANAO (2001-02 and 2011-12) and VIC (2011-12) which analyse a sample of PA.

Figure 7: PA motivations (2001-02 and 2011-12)



Interviewees across all jurisdictions including the ANAO, cited (with one exception) the parliament and then the general public as the two priority stakeholders their PA reports targeted. Auditees were understandably also considered an important stakeholder group to whom PA reports were targeted. Interestingly a number of interviewees from several jurisdictions paid considerable attention to the media. This was explained as a PA target group in the following terms. The media was seen as an important conduit for reaching the general public through its role of information provider and issue raiser. It was also seen to be a catalyst for attracting parliament's attention to particular issues, and

thereby attracting government and thence public sector agency attention. In addition the media attracted community interest to emerging issues. So the media in some instances was seen to encourage parliamentarians and government to read PA reports. Furthermore, it was also observed by some interviewees that reviewing media coverage of community, public sector and other issues also provided information to the AG on issues and themes attracting community interest and attention, thereby inputting to consideration in an AG office PA selection decisions. In some cases, interviewees contended that selection of PA issues and topics could take account of issues highlighted in the media, government program impacts on the community, topics with high visibility and concern to the public.

Interviewees reported that AGs' perceptions of their key audience groups did influence their PA report presentation. Many particularly cited the profiles and needs of parliamentarians as influencing PA report format towards shorter report length, with layout design for ease of reader access, employing language minimising technical jargon, writing in simple plain English, and adopting balanced tone of expression. Further adaptations to target audience accessibility and comprehension included offering concise overview summaries, presenting detailed as well as executive summary reports, highlighting key report areas with photographs, charts and diagrams, and presenting conclusions that explain the meaning and implications of the report findings. Indeed, some interviewees felt that communication skills and plans, media releases, and report writing for media and public digestion were becoming a particular priority in some AG offices

Some interviewees commented on audience abilities to engage with and comprehend PA reports. The general view appeared to be that politicians' abilities in this regard had improved over time and that more were beginning to read and understand such reports more effectively. The variation in parliamentarians' expertise, knowledge and interest in areas covered by PA was nonetheless acknowledged. Despite this limitation, awareness of and interest in PA amongst various stakeholders was felt to be on the rise, so that some AGs aimed to be particularly responsive to general parliamentary feedback, and generally attempting to engage with the full spectrum of stakeholders. Arguably, the most significant reflection of interviewees related to their perceptions of stakeholder expectations which they argued have increased significantly over time. It was generally considered that parliamentarians' expectations of PA had increased significantly. They were calling for more PA reports than previously, lobbying the AG when they identified an issue they wanted subject to PA, sought greater audit attention to performance issues, and were demanding greater accuracy, reliability and quality of PA reports. Parliamentarians also appeared to require shorter reports that would deliver simple answers to complex issues. Indeed, across the stakeholder groups, there appeared to be an expectation of PA reports to provide tougher criticisms and more adverse findings.

## **Making Recommendations**

This study closely examined the recommendations contained in PA reports across all Australian states and territories as well as the ANAO. Table 7 shows the 15 categories applied to recommendations, by absolute number and percentage frequency for Australian states and territories and ANAO. Figures 8 and 9 display this data graphically for states and territories and for the ANAO. Three functional areas emerge as attracting most recommendations:

1. Operational and internal control
2. Corporate governance and accountability
3. Information quality, services and control

Notably, this pronounced emphasis in comparison to other auditee functional areas is common to both states and territories overall and to the ANAO. One other functional area has attracted particular ANAO attention in its PA recommendations. That is the area of performance measurement. However, it must be said that this is also the fourth most frequently recommendation area by AGs in the states and territories. Clearly then, these are national priority areas of concern and attention as revealed by PA reporting.

Table 7: PA recommendations (2001-02 and 2011-12)

		All states & territories				ANAO			
		2001-02	2001-02	2011-12	2011-12	2001-02	2001-02	2011-12	2011-12
Information Quality/ Services/ Control	(IQSC)	132	19%	97	15%	10	16%	10	21%
Performance Measurement	(PM)	57	8%	41	6%	9	15%	7	15%
Outcome/ Performance Management	(OPM)	22	3%	12	2%	1	2%	3	6%
Corporate Governance and Accountability	(CGA)	192	27%	156	24%	8	13%	11	23%
Government Policy/ Directives Implementation	(GPDI)	6	1%	3	0.5%	0	0%	0	0%
Waste of resources	(WR)	0	0%	0	0%	0	0%	0	0%
Managing Risk	(MR)	19	3%	28	4%	6	10%	3	6%
Operational/ Internal Control	(OIC)	199	28%	242	37%	25	40%	13	27%
Services Responsiveness	(SR)	0	0%	0	0%	0	0%	0	0%
Monitoring/ Enforcing Legislative Compliance	(MELC)	16	2%	29	4%	1	2%	0	0%
Service Delivery	(SD)	6	1%	11	2%	0	0%	0	0%
Allegations of Malpractice	(AM)	0	0%	0	0%	0	0%	0	0%
Conflicts of interest	(CI)	4	1%	3	0.5%	0	0%	0	0%
Strategy/ Process Implementation	(SPI)	16	2%	36	5%	2	3%	1	2%
Amendment of Government Legislation	(GL)	36	5%	4	1%	0	0%	0	0%
<b>Total number of PA</b>		<b>705</b>	<b>100 %</b>	<b>662</b>	<b>100 %</b>	<b>62</b>	<b>100 %</b>	<b>48</b>	<b>100 %</b>

Figure 8: PA recommendations across Australia (2001-02 – 2011-12)

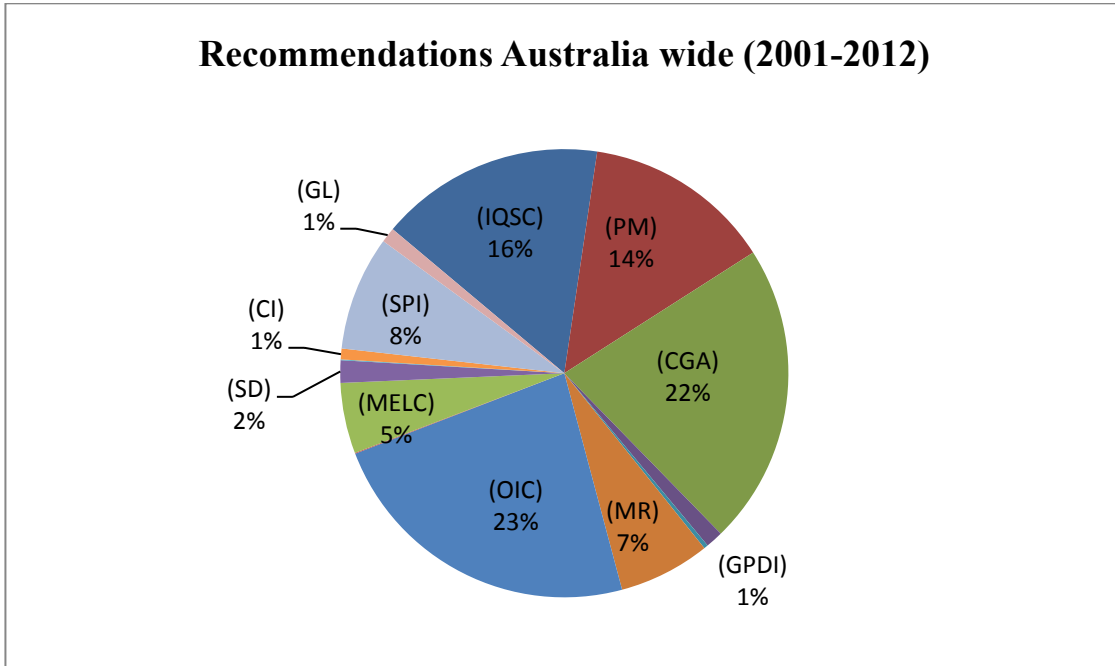
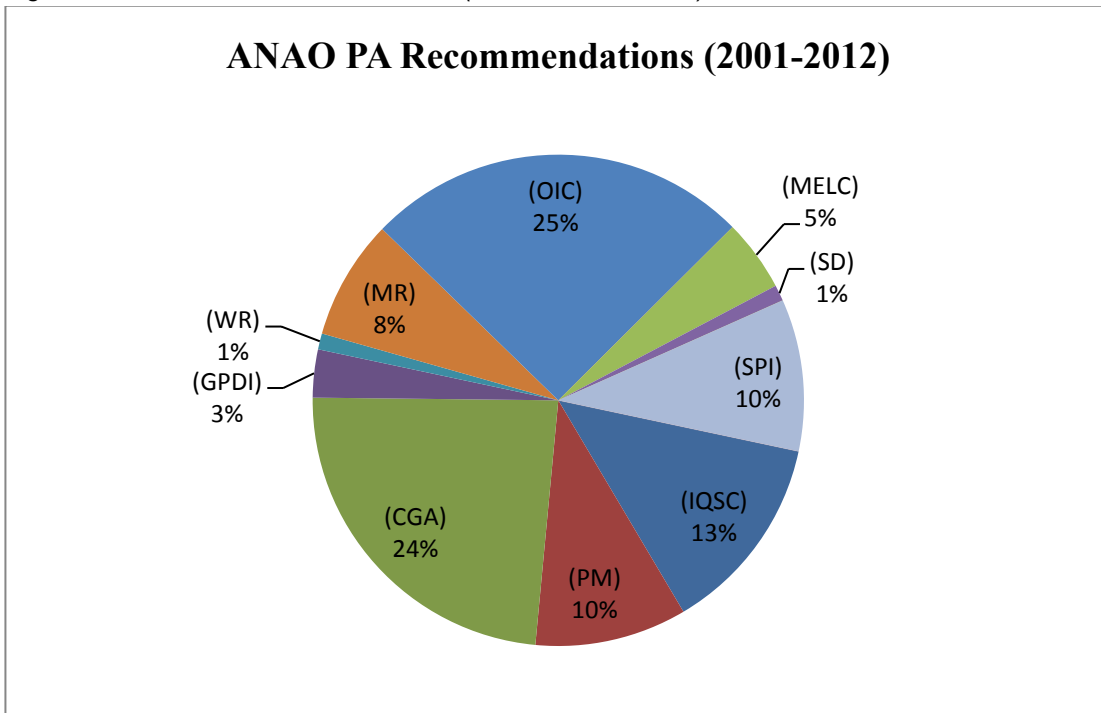


Figure 9: ANAO PA recommendations (2001-02 – 2011-12)



The nature of recommendations made was subject to considerable comment by AG office interviewees across the Australian jurisdictions. There was considerable variability between these jurisdictions in their view of and attitude to number of recommendations that should be made in any PA report. Many argued that their average number of recommendations had remained fairly stable over time. Others however, reported that the number of recommendations they typically produce had

deliberately been reduced. This could involve aggregating recommendations into a smaller group of general recommendations for easier digestibility, or reducing the total number of recommendations to focus reader attention on the most significant issues and facilitate auditee implementation of recommendations. There was also a reported trend towards designing recommendations to be practical and implementable, with a focus on underlying issue causes and desired outcomes rather than processes. This was intended to allow agency managers to exercise their prerogative in how to implement changes that would be feasible and suitable for their own operations. So, while some aimed for specific recommendations, they moderated this in favour of a more general style of recommendation to preserve manager's right to manage.

## Auditee Relationships and Responses

PA reports across all Australian jurisdictions were examined for two sample years, 2001-02 and 2011-12 for auditee responses published within PA reports. The variety of responses and rationales offered was considerable. Acceptance or rejection of PA report recommendations took a multiplicity of forms. Auditee acceptance took the following variant forms:

- Accept
- Accept in principle
- Agreed subject to negotiation
- Conditional Acceptance (e.g. subject to resources)
- Agreement implied (from the comments made within the auditee response)
- Partial agreement implied (from the comments made within the auditee response)

These auditee responses, suggest quite a range from total acceptance by the auditee to an implied, partial or minimalist acceptance. Auditee rejection was also quite variously expressed as:

- Reject
- Rejection implied (from the comments)
- Under consideration
- Not applicable
- Noted
- No specific response to the recommendation
- Obfuscation (e.g. a lengthy narrative on agency operation)

Unlike the varying degrees of acceptance, arguably these different expressions of rejection all most likely amounted to complete rejection or inaction regarding PA report recommendations. Thus, while acceptance of PA recommendations might at first sight have appeared to be quite customary, the highly variable forms of auditee response phrasing, suggests otherwise.

The reasons advanced by auditees for their acceptance or rejection of PA report recommendations, was similarly diverse. The researchers identified 35 different categories of reasons advanced, and these could be grouped into 12 general categories which in tune comprised 5 major groupings. Most positive rationales for accepting PA report recommendations were expressed in terms of *benefits to the auditee organisation*: offering direct benefits or indeed motivating the auditee to go further than the recommendations implementing additional changes and improvements. However, more often expressed as rationales for stated or implied rejection were those that the researchers classified as *feasibility*: organisational suitability, practicability, qualified implementation approaches or alleged anticipated dysfunctional organisational impacts. Organisational suitability rationales included suitability to organisational context or relevance to the organisation's scope of responsibility. Practicability rationales included recommendations alleged to ignore capacity to implement them. Qualified implementation approaches included a host of different rationales including:

- Will implement changes required (no qualifications);
- Will implement changes required (including approach/ plan/ technical answer);
- Will implement changes required subject to resource constraints
- Will implement changes required subject to capacity to implement

- Will implement changes required subject to prior implementation from other entities
- Will implement as a framework, but wants to maintain flexibility
- Will implement changes required through working with partner agencies
- Will implement changes required subject to leadership from central agencies
- Will implement changes required where appropriate
- Will implement changes required subject to practical considerations.
- Will implement changes required through enhancements of existing systems and processes

Further rational groups included *maintaining the status quo*: including arguing the current systems and processes to be adequate, or contending that current organisational processes are already performing adequately. Another rationale advanced in auditee responses was classified as *externalising*: namely projecting responsibility for issues onto other parties outside the auditee organisation or blaming potential public impact. These included rationales such as pointing to claimed limitations such as the prerogatives of the government of the day, against the public interest, inconsistent with other arms of government processes, subject to industrial agreement limitations or applicable to other agencies. Finally, there emerged the responses that could be categorised as *self-defence*: these either procrastinated or contested the basis, assumptions or diagnosis of the PA report itself. Procrastination took the form of statements that the recommendations would be considered, or not commented upon, or investigated further. Contestation took such forms as arguing that the auditor's assumptions were incorrect, the PA report was unclear, the PA report misrepresented the situation, or that recommendations were inconsistent with the auditee's interpretation of their governing legislation.

Table 8 suggests that PA report recommendations are achieving high rates of acceptance publicly stated by auditees. However, some caution may be required in interpreting these results. While on the surface, PA reports might appear to invoke considered responses from auditees with a strong degree of uptake, a careful analysis of auditee discourse reveals a rather more complex pattern of responses. That pattern suggests a higher degree of resistance and prevarication amongst auditees than might be initially apparent. This suggests considerable scope for further exploring auditor-auditee relationships and communications, to which interviewees for this project did indeed allude.

Table 8: Acceptance rate of PA recommendations (2001 – 2012)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
NSW	53%	85%	89%	91%	93%	93%	90%	99%	92%	98%	98%
TAS			91%			60%	94%	74%	70%	74%	
VIC	58%	76%	90% <sup>1</sup>	93%	97%			90%			99%
ANA O	91%	98%	97%	94%	99%	92%	93%	91%	93%	95%	95%
ACT								71%	72%	86%	81%
QLD	0%		100%	100%	100%	100%	100%		100%	95%	83%
WA	No data										
NT	No data										

Interviewees acknowledged some marginal impact of auditees on the scope or timing of a performance audit being planned. This might take forms such as auditee representations about frequency of PA applied to them, consultation and negotiation between auditor and auditee about potential topic areas and scope, parliamentary advice on potential areas of interest, and preliminary auditor – auditee discussion of PA criteria to be applied to planned audit. More direct impacts of auditees were noted to occur with respect to the actual PA conduct process. This could assist or impede/delay that process. Assistance could take the forms of sharing high quality information, open

communication and transparent engagement facilitated by the auditee. Impediment could be experienced through strategies to delay completion of the audit, delaying availability of relevant auditee staff to the auditors, confrontational and defensive auditee attitudes and behaviours, producing 'new' evidence not hitherto made available to the auditors at the preliminary draft PA report stage, and refusing to accept any recommendations as early as the drafting stage. With respect to PA report structure, most interviewees asserted that auditees had virtually no influence. Opinion was rather more divided with respect to auditee influence on PA report content. Some interviewees argued that there was no or very little influence while others claimed auditees could have some influence through their correcting of errors of fact, explaining misunderstandings, and influencing report tone through their discussions with the auditors.

Thus, auditor-auditee relationships appear to be a crucial factor in the conduct of effective PA. Particularly auditee formal written responses published within PA reports reflect a wide range of response attitudes that offer some early indications of likely extent of uptake of PA recommendations.

## **Strategic Orientation and Directions**

Across the Australian public sector audit jurisdictions, AGs and their executive level colleagues were interviewed with respect to their interpretations and views of PA role and its future trends.

### **Assessing Role**

In the first instance it was considered that PA assists and informs Parliament in holding government to account generally, and with specific reference to its management of resources under its control, its expenditure of taxpayers' money, and whether expenditures deliver what was expected.

In addition, PA is seen as something more than assurance for parliament, also independently informing and impacting on the decisions of all stakeholders. Thus, it appeared to be a generally held view that PA makes a significant difference and benefits the whole community in general. This was argued to be achieved through:

- Improved public administration and then through improved governance
- Professionalism and independent evidence
- Examining and learning from prior program implementations
- Fostering continuous improvement
- Addressing issues of concern to the public, parliament and government

Furthermore, from government's perspective, PA assures government and through them the public that a program/activity is achieving the objectives set by the government. It also is seen to show how AGs meet parliament's requirements for accountability. As one interviewee remarked however, it serves as a substitute for the market which promotes efficiency and effectiveness but is not a substitute for Executive responsibility.

A consistent theme amongst interviewees was the view that PA motivates public sector service improvement and makes a difference to the community at large. Accessible to the public, PA was held out as addressing issues of public interest. It is seen to cause auditees to question their fundamental operations, addressing and offering insights into some issues that auditees have not been able to solve, providing parliament with the leverage to ask why expectations are not being achieved, and at times triggering fundamental public sector reforms.

### **Developments to Date**

From its beginnings at different points of time across the various Australian jurisdictions, PA experienced tentative start-ups and slow initial progress, sometimes due to reticence of government, treasury or other parties. Since those earlier years, interviewees were generally unanimous in their view that PA has matured and improved in quality, evolving as a distinct discipline, becoming more sophisticated in concept and execution. Its target audiences have gradually extended and its focal



themes of investigation have broadened and diversified. Cited examples of this included extending investigations across social justice areas, specific functions such as roads and hospitals, public sector management, benchmarking, public sector processes and public sector management policy impacts. Interviewees also observed an evolution in quality of performance audit staff, relationships with auditees and the PA process itself. Performance auditors have gradually become better trained and skilled, at times drawing on expertise and training from experts in a relevant field. At the same time their practical understanding of agencies' issues and programs, along with their awareness of social and policy issues, has grown. In addition, some interviewees discussed the relationship between financial and performance audit staff, seeing alignments through which information could be shared and knowledge built about particular functions. Similarly the methodology of approaching auditees has been seen to have evolved. While in earlier times, auditors may have been somewhat distant from their clients (e.g. via desktop analysis and e-mail communications). Performance auditors are felt to have moved away from an earlier tendency towards a confrontational approach, to greater engagement, communication and consultation with and beyond agencies. Adequate evidence in support of recommendations, and effective communications with auditees were seen as keys to their implementation of audit recommendations. While differences between jurisdictions have inevitably existed, PA processes have shown some distinct evolutionary signs over the years. PA programs have more frequently moved from a framework approach to a pre-planned approach involving distinct selection criteria, mapped over a longer term time frame, subject to and following PA standards, and focussed upon a cost effective efficient PA process delivery.

Some suggestions emerged that early PA reports were often targeted at auditees, employed jargon familiar to auditor and auditees, and addressed issues of concern to auditees but not necessarily of priority concern to the general public. Many interviewees generally described more recently produced PA reports as having become shorter in length and delivered in clearer formatting and simpler language for ease of reader accessibility and comprehension. This has been a strategy aimed at facilitating readership and understanding by both parliamentarians and the general public. In addition, PA report content and structure is contended to have become more focussed in several respects. First, they have often aimed to address questions of interest to parliamentarians and the general public and have firmly targeted those audiences. Second, they have translated broad high level questions into more specific questions to which report audiences can more easily relate. Third, attention is often paid to the number of recommendations made, so that parliamentarians can manage and indeed comment on each if they wish. Finally, increased efforts are being made to make PA reports electronically accessible via online web delivery, thereby seeking better target audience engagement.

## **Recommended Directions**

When asked about their recommendations for the future development of PA, interviewees offered a wide range of views. In terms of audit approach, it was suggested that PA should avoid a formulaic standards approach, instead developing itself as a distinctive and disciplined form of audit employing a wider range of tools and techniques suited to dealing with the complexities involved in PA. Some also felt that PA should be more focused on key issues, producing shorter reports that aggregate recommendations into main overall recommendations that are more digestible for readers and easier to communicate. Furthermore, it was felt that the various Australian audit jurisdictions could further improve their relationship and collaboration.

In terms of focus and deliverables, a number of those interviewed also argued that PA should audit statements of performance targets. This included a view that PA should audit effective administration of programs and their efficiency of resource allocation that can have an impact on policy decisions. Calls were made for greater regard to risk assessment in determining selection of PA targets and scope of PA work. Related to the issue of deliverables, interviewees referred to auditor engagement with and securing clearer leads from the Parliament about PA. It was also considered that all jurisdictions should pursue mechanisms for engaging the public more directly about PA: in terms of

issues deserving attention and scope of investigation. Relations with PA auditees also attracted attention. The potential was raised for more consultation and progressive reporting to auditee agencies, assisting auditees to solve problems they have found difficult, and encouraging auditees' more positive attitude to PA through less confrontational/contestable approaches, transparent engagement and offering the benefits of a broader approach to issues.

Finally, with respect to resources for PA, interviewees recognised the inevitable inadequacy of resources for so many and such large scale potential performance audit needs. However, there was a growing acknowledgement of the need to increase resources devoted to PA, given the interest and priority to issues addressed in PA reports being exhibited by parliamentarians.

## **Anticipated Directions and Driving Influences**

Anticipated directions of PA development varied across jurisdictions. They included 'no change' predictions in terms of continuity of current PA frequency and scope over the medium term, to modest developments due to resource constraints, to a growing high profile for PA due to community, parliamentarians and government expectations concerning the efficiency and effectiveness of public sector programs. Associated with the latter appears to be a movement in some jurisdictions towards a growing importance being attached to PA in comparison with financial and compliance audits, and greater emphasis upon assessing impacts of programs in comparison with government intentions and agency objectives.

A considerable array of factors seen to condition future PA development, were cited by interviewees. These included governments and parliamentarians recognising the potential of outcomes and policy impact focussed PA to deliver greater government savings and deliverables. This was seen as a distinct trend in some jurisdictions. Also, crucial to PA future is its resourcing by government and parliament, in total and in proportion to financial and compliance audit resourcing. Mention was also made of the influence of discussions in the Council of Auditors-General. Politicisation was also an emergent influence in contradictory respects. On one hand, there was a perceived risk of a mutual self-serving capture of politicians and bureaucrats that could limit accountability. On the other hand, PA and its deliverables are showing signs of attracting increasing parliamentarian and public attention and are thus assuming high political profile in some instances. In the latter situation, the AG and the PA reports can assume the role of independent umpire to whom various parties turn when addressing problems subject to political and public debate. These high profile parliamentary and public expectations of PA appear likely to bring pressure to bear for robust and credible performance auditing, justifications of the PA value for money by AGs, and increasing demands for a greater number and range of performance audits in some jurisdictions.

## **Conclusions**

This study of PA across Australia has revealed this form of public sector audit as a high profile, high volume activity consistently producing a large volume of reports over the past decade. Notable, as leaders in PA report production have been the ANAO and the Victorian Auditor General however, (with the exception of South Australia) Performance Audit is now an established aspect of the work of all Australian Auditors General.

It would seem reasonable to review the current performance audit program in South Australia with the possible idea of producing a more distinct performance audit reports.

Despite the different political and institutional drivers for performance audit identified within the academic literature, the practice of performance audit has evolved to reflect a high level of consistency. This consistency is firstly evident in the terminology used. 'Performance audit' has emerged as the predominant label for this form of auditing, with efficiency and effectiveness being the

focal publicly declared constituent concepts. While issues of accountability, compliance and value for money are important, these are secondary to the key focus on efficiency.

There is some diversity around the balance between a control and a program focus. From a practice perspective there is a choice between focusing on reviewing the controls. In general, there is a focus on auditing the controls necessary to ensure efficiency (most notably in the ANAO, Queensland and Tasmania). However, practice evident in the Victoria, ACT, NSW and Western Australia reports mix this control focus with a program focus. Both formal statements and interviews from the Auditors General suggest a trend towards a greater focus on actual outcomes rather than just the controls.

The first and significant point in the sectorial focus is the unexpected similarity between the state and the commonwealth based offices. Across all jurisdictions the multi and interagency focus is significant representing 35% of the state-based studies and 22% of the ANAO work. Beyond this, state-based offices tend to focus most of this activity on the key state activities of state and local, transport, infrastructure, health, aging, education and employment, while the most significant focus of the ANAO was on the Commonwealth responsibilities of defence and foreign affairs.

From a practical perspective this suggests that there are opportunities both for methodological and for sectorial cooperation across jurisdiction on interagency studies and the over-lap between commonwealth and state based activity.

In balancing the public, parliamentary and public service stakeholders Auditors General tend to emphasise the primacy of keeping parliament informed to facilitate its role of holding the government to account. However, in practice performance audit reports tend to emphasise the need to improve public services and issues of public interest. The notion of practical relevance and contribution to good public management is a central theme of many of the Auditors General.

Selection of sites and issues for PA in the majority of cases is a matter for self-determination by the AG, with government and parliament being the next most significant triggering influences for PA selection. With respect to the top priority target stakeholders, AGs unanimously prioritise parliament and then in many cases recognise the general public as a major priority stakeholder. Some have begun to pay increasing attention to the media as a venue where emerging issues of public interest are raised, and as a channel that disseminates information to the general public. They are also recognising the increasing interest, demands and expectations for PA information being evidenced among parliamentarians. In the light of these stakeholder groups and their interests, increasing attention is being paid to PA report design and reader accessibility.

An ongoing challenge that faces Auditors General, is how to involve a broader range of stakeholders in the discussion around the identification and selection of key performance audit topic areas without compromising independence. Also, there is a challenge to manage the growing tendency of committees and the executive to refer performance audit topic areas to the Auditor General.

The future directions of PA in the Australian public sector will be significantly affected by the extent of resourcing available, although AG offices by and large appear intent on increasing their allocation of resources to this form of auditing which is set to grow in importance and proportionate funding, relative to financial and compliance auditing. In pursuing PA, AGs appear interested in seeking to engage the public more directly and to improve their consultation, communications and relations with auditees. In addition, PA may further focus its recommendations on key issues, particularly those that impact on policy areas of government. Thus, PA appears positioned to increasingly occupy a more central role in political and public discourse and deliberations.

Given the explicit and implicit resource constraints some Auditors General face in the funding of their performance audit activities, there are significant challenges around prioritising projects and maintaining viable performance audit capacities.

Interviews across AGs and their senior colleagues confirmed this conclusion, particularly as they perceived effectiveness and outcomes issues to be more amenable to PA processes, and were finding parliament more interested in issues concerning effectiveness. PA recommendations have focussed particularly on three main auditee operating areas: operational and internal control; corporate governance and accountability; information quality, services and control. AGs are in general aiming to produce audit report recommendations that are practical and implementable, while at the same time trying to preserve auditee prerogatives to manage approaches to change and its implementation as they see fit. Auditee responses to recommendations emerge as a highly varied and complex mix. While claims of high levels of acceptance may be made from time to time, there appear to be many forms of published auditee responses that embody various degrees of qualifications to their acceptance, or indeed a range of expressions of rejection. Furthermore, there are a considerable array of rationales mounted by auditees for their responses to PA recommendations ranging across allegations of infeasibility, assertions about benefits to the auditee, arguments for maintaining the *status quo*, projecting and externalising to other entities and factors, or simple self-defence. Thus, Australian public sector PA has developed considerably in scope, volume and technical sophistication. It is gradually moving towards an increasingly effective outcomes focus as it increasingly engages with and takes account of parliamentarians' and the general public's interests and concerns. The trend towards PA moving closer to centre stage in the public sector audit regime appears set to continue.

While issues of control and compliance remain central to much audit activity, the interesting challenge for performance audit may come as the controls become quite good. Therefore, there may be diminishing returns to control focused performance audits and a need to refocus this activity towards a more evaluative and lesson-drawing perspective to retain the value of performance audit. From this perspective, it is interesting to ask whether it would be possible to conduct a performance audit of performance audit. Nevertheless, there is scope for a broader democratisation around issues of topic selection and to continue to educate both the public and politicians to understand what auditors say (and perhaps auditors to communicate more clearly with politicians and the public).

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## Appendix

Table 1: Population of performance audit reports published in Parliament (2001-2012)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Total PA per state, territory, ANAO
<b>ACT</b>	10	9	3	8	7	7	5	8	6	7	6	76
<b>ANAO</b>	46	47	45	48	46	45	44	45	47	52	52	517
<b>NSW</b>	14	13	12	17	15	14	11	7	14	12	9	138
<b>NT*</b>	20	8	10	4	0	0	2	3	8	3	6	64
<b>QLD</b>	0	3	3	2	3	4	6	6	7	5	7	46
<b>TAS</b>	3	6	4	5	2	5	5	5	2	9	6	52
<b>VAGO</b>	9	9	9	10	12	13	29	26	26	30	29	202
<b>WA (PE/ Broad scope PA)**</b>	8	6	9	4	10	6	4	5	5	3	7	67
<b>WA (CCA)**</b>	9	10	11	8	10	10	4	10				72
<b>WA (Narrow scope PA)**</b>									13	10	12	35
<b>Total PA per year</b>	<b>119</b>	<b>101</b>	<b>95</b>	<b>98</b>	<b>95</b>	<b>104</b>	<b>110</b>	<b>115</b>	<b>115</b>	<b>121</b>	<b>122</b>	<b>1195</b>

Note: \* NT Performance Management Systems (PMS) audits initiated each year.

\*\* During 2001-2009, WA Auditor-General performance auditing group tabled the Annual Reports to Parliament two types of PA which include: Performance Examination (PE) reports and Controls, Compliance and Accountability (CCA) reports. Since 2009-10, WA Auditor-General performance auditing program started tabling in Parliament two types of performance audits which are: broad scope PA reports and narrow scope PA reports.



