

# PUBLIC SECTOR AUDITING

*Is it value for money?*



SIR JOHN BOURN

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John Wiley & Sons, Ltd



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## Preface

This book is an account of my experience since 1988 as Comptroller and Auditor General of the United Kingdom; as the first Auditor General of Wales from 1998 to 2005; and as the holder of many international audit appointments, including member and chairmanship of the Board of Audit of the United Nations.

I left the British Civil Service to take up the position of Comptroller and Auditor General after some thirty years' civil service experience, where I served in the Air Ministry, Treasury, Civil Service College, Ministry of Defence, and the Northern Ireland Office. During this time, I naturally experienced the work of the National Audit Office.

I had the greatest respect for the role of the office in auditing the financial statements of British central government, and in seeing that money was spent according to the law and Parliamentary expectations. I also saw that the very existence of the office acted as a permanent encouragement to care in the handling of public money.

But I also thought that the National Audit Office had a great opportunity to add to its traditional responsibility for seeing that money was spent legally. It had a new responsibility – given to it by the National Audit Act of 1983 – to encourage the achievement of value for money in government spending programmes by developing performance auditing. We must remember that money may be spent legally, but it still may be wasted, with results that are disappointing and the very reverse of value for money.

This book is an account of how I and my colleagues in the National Audit Office took the programme for value for money auditing forward, and of how, as we did so, and developed new auditing career possibilities and new methodologies, we learned from other audit offices and private

sector auditors round the world. The result, I hope, is a primer of how value for money might be usefully and effectively deployed domestically and internationally.

It draws on experiences and reports from a wide range of countries, covering many areas and levels of public administration. It takes account, too, of the changing nature of government in many countries following the collapse of communism; the development of closer links between the public and private sectors in providing government activities and services; the impact of new technologies for communication and handling information; the threat of new forms of criminal behaviours as in money laundering; and the forces of globalisation that have brought countries closer together in many ways, but brought tensions and challenges too.

I therefore hope that this book will show how public sector auditors may make an even greater contribution than now to the effectiveness of democratic governments in the service of all their citizens.

## Acknowledgements

I should like to thank Professor George Jones who suggested that I should produce this book, which draws upon a series of seminars which I gave as a Visiting Professor at the London School of Economics and Political Science. I should also like to thank the Rt Hon Sir Geoffrey Pattie who encouraged me to go ahead with the book, and gave me valuable help and advice.

I should also like to thank my colleagues at the National Audit Office for all their help, advice and suggestions, particularly Michael Whitehouse, who was especially helpful, and also Mark Babington, Tim Banfield, Ed Humpherson, Jeremy Lonsdale, James Robertson and Nick Sloan. Indeed, I owe thanks to everyone in the National Audit Office because this book is very much – though not exclusively – an account of the work that we have done together over the years in the audit of British central government and in our international work.

I should also like to thank the following friends and colleagues who have advised me and suggested most useful ideas, Peter Aliferis, Deputy Executive Director of the Association of Government Accountants of the USA; Pat Barrett, former Auditor General of Australia; Professor Richard Laughlin of Kings College, London; Gilbert Lloyd, Partner at KPMG; Professor Ed Page of the London School of Economics and Political Science and Professor Christopher Pollitt of the Katholieke University Leuven.

This is a book about public sector auditing; its analysis, ideas and suggestions are designed to be relevant not only to the activities of the United Kingdom government, for which I discharge audit responsibilities as Comptroller and Auditor General, but also to public sector auditing generally in the United Kingdom and internationally.



I have therefore learned a great deal from my colleagues who are public sector auditors in other jurisdictions in the United Kingdom and in other countries; from colleagues with whom I have worked in the International Organisation of Supreme Audit Institutions and the European Organisation of Supreme Organisations; from departments and public bodies for whom I have had audit responsibilities; from colleagues on the Financial Reporting Council; the Accountancy Foundation; and the Council's Public Oversight Board; from members of the United Kingdom Parliament, to whom our Office's reports are presented, especially the three successive Chairs of the Committee of Public Accounts which specialises in our work – the Rt Hon Lord Sheldon, the Rt Hon David Davis MP, and Edward Leigh MP; and the three successive Chairs of the Public Accounts Commission – the Rt Hon Sir Peter Hordern, former member of Parliament for Horsham and Crawley; the Rt Hon Lord Sheldon; and the Rt Hon Alan Williams MP; and from members of the National Assembly for Wales, when I was the first Auditor General for Wales, especially the Audit Committee, and the two Chairs during the currency of my appointment, Janet Davies and the Rt Hon Dafydd Wigley.

I am most grateful to my publisher, Caitlin Cornish for all her help and advice.

Since this book draws so heavily upon the work of the National Audit Office, revenue that accrues to me as the author will all be passed to the National Audit Office.

Finally, while I have had a great deal of help and advice in writing this book, I take full responsibility for its contents.

## Introduction

Auditing is a necessary but often unpopular activity in modern society. Grudgingly, most of us accept the intellectual case for auditing, though we do not always welcome the auditor's attention to our own affairs. Nevertheless, most of us are re-assured when the 'watchdog barks', in cases where accounts are revealed as defective; fraud is detected; and waste in public programmes is brought out for all to see.

Yet many of us wonder whether the expense of auditing is justified by the results achieved. This is true in both the private and the public sectors. And so far as the public sector is concerned, many of us wonder why the same mistakes seem to be made time and time again – projects delayed; estimates exceeded; public services disappointing.

So the question arises: 'Public Service Auditing – Is it Value for Money?'

And the purpose of this book is to show that it can be value for money. The argument is that:

- Public authorities are fundamentally bureaucracies – hierarchies operating by rules – and hence are more inclined to look inwards to processes and procedures, than outwards to results and outcomes for those whom they have the duty to serve.
- Traditionally, public sector audit, valuable as it could be, through its independence from organisations, and the authority and objectivity this bestows, reinforced the tendency to look inwards by its concentration on seeing that rules and procedures were obeyed and money spent according to them.
- Auditors therefore concentrated on the cataloguing of failure, from which, of course, we may learn what not to do. But valuable as this is, especially in the detection of fraud and waste, an inventory of failures is not a guide to success.
- And the argument of this book is that by analysing and encouraging the successes of public administration, the auditor can act as coach and mentor rather than critic and nark; and his recommendations can

thus help his public sector clients to succeed in the future rather than simply criticising them for failure in the past.

## 1.1 MODERN PUBLIC ADMINISTRATION

As background to the argument, it may be helpful in this introduction to sketch out some of the main features of contemporary public administration, to set the stage upon which the auditor has to perform, and then to indicate how my argument is developed in the ensuing chapters.

It must be recognised that different states organise their governments and public administrations in different ways. The United Kingdom (UK), China, Portugal, Ireland and Greece are unitary states while others such as Russia, India, the United States of America (USA) and Germany are federal states. Others, notably Denmark, Finland and Sweden, have devolved considerable responsibility for delivery of public services to municipalities. Public services in many European countries have evolved and adapted in response to key historical events such as the need to marshal resources to fight two world wars; and all countries claim to share the moral imperative of tackling poverty and social exclusion and improving general human well being.

Political ideology has shaped public administration in many countries. For several decades after the second world war, many countries throughout the world extended the scope and scale of government activity. Industries were nationalised; national health services inaugurated; schemes of social welfare extended. Communist countries sought to bring most economic activities under state control, but many countries which maintained a social market economy, like the UK and France, nevertheless had a substantial state sector, with public enterprise providing many activities such as electricity, water, gas and railways.

From the 1970s, however, the emphasis changed. In many countries, including former Communist countries, the state was rolled back. Many economic activities were returned to the private sector. In the UK, for example, railways, electricity, water supply, the state airline, and telecommunications were privatised – though where state monopolies were turned into private monopolies or oligopolies, regulators were set up to ensure ‘fair play’ between shareholders and customers.

More recently, rapid advances in technology have been a major driver of change in public service delivery. What public authorities seek to influence has also changed in many countries. Whereas in the past

authorities largely made their own assumptions about services to be provided, they now increasingly seek to influence what might be called 'life style choices' in aspects as diverse as anti social behaviour, diet to prevent or reduce obesity, parenting skills and attitudes towards environmental sustainability.

What has emerged from these influences in many countries is a public sector which no longer has a monopoly on delivery. Increasingly, the private and voluntary sectors play important roles. In other respects, however, public services remain remarkably unchanged. Well defined, often elaborate, processes for decision making remain. Entitlement to most forms of state support, such as welfare benefits, or grants to promote economic development depend on meeting a complex range of rules and regulations. This inherent complexity increases the risk of exclusion, with significant numbers of people intended to benefit not doing so, as well as increasing the potential for administrative inefficiency at significant cost and acting as a disincentive for innovation and entrepreneurship. Many of the inherent tensions which successive governments have grappled with remain such as achieving the optimum balance in driving change by top-down targets or by creating markets and competition, or resolving the tension between central strategies and systems on one hand and delegation of decision-making to the front line on the other.

And herein lies the paradox. In spite of well meaning attempts to reform and improve the public sector, often, as in the UK with significant growth in expenditure on health, education and social welfare, there remains a widespread belief that services are not as good as they ought to, and could, be. In some areas, such as the need to tackle skill gaps and improve productivity, underperformance has consequences for national competitiveness in a global economy. This is, of course, not the complete picture. Most of us would accept that the average standard of living in most countries – though sadly not all – has improved and that as well as economic prosperity, public services such as health and education have contributed to this. Yet there remain significant examples of waste, underperformance, and of citizens, particularly those who are the most vulnerable in society, not receiving the service to which they are entitled to or expect. Much research into why this is the case exists. But reaching consensus around how best to design and deliver public services which meet most people's reasonable expectations and which are affordable and cost effective continues to elude us. And it is here that public audit enters the debate.