

<b>Title of research proposal</b>	The Architecture, Governance and Substance of UK Public Audit
<b>Main/sub field of study</b>	Business And Management Studies, Administration, Government, Politics

### Abstract

Public audit is an important but analytically neglected field of study. Yet, while the 'age of austerity' intensifies demands on public audit, its scope and practices are questioned. This project evaluates the current strengths and weaknesses of UK public audit. It examines its governance and performance across fragmenting jurisdictions, functions and supply chains. It weighs the task and organisational risks against likely benefits of these developments. Throughout, the proven method comprises a triangulation of (i) literature analysis, (ii) documentary analysis of primary sources and (iii) programme of elite interviews. A book will publish the findings for knowledge and practice.

### Places where you will carry out the proposed research

Based at the University of Aberdeen with selected visits for the programme of elite interviews of (a) public audit offices in the United Kingdom, (b) audit clients, (c) Parliamentary and government principals and oversight bodies, (d) professional institutes, private audit firms, think tanks, and (e) international organisations. International visits will complement existing sources in Australia established during 2009 and will comprise Canada and its provinces (for institutional parallels), France, Germany, Netherlands and Sweden (for institutional differences), OECD (where senior budget officials meetings provide a forum of practice), IMF and European Commission.

### Details of your established field of research

My research interests include government accounting reform, public expenditure and financing devolved government. In 2006, I published a co-edited book (*Transparency: The Key to Better Governance?*) with Christopher Hood (Oxford) on the more general relevance of 'transparency' to public policy. I have also been involved in the development and scrutiny of public policy – notably, through my roles as specialist adviser to the Treasury Committee of the UK House of Commons (1989-2010) and to The Public Accounts Commission (2002-08). I was a member of the Financial Reporting Advisory Board to HM Treasury from August 2004 to July 2009.

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## Plans for publishing the results of this research

The principal output from this research will be a single-author book, with a leading publisher, that will advance knowledge of the role and potential of public audit and inform its practice. By employing an analytical framework to distinguish the actual, as opposed to notional, role of public audit across different models of public audit, it will seek to remedy both the relative neglect of public audit in the academic literature and its institutionally descriptive emphasis. The author will also publish a paper in a journal with a record of impact on practice and contribute to academic and practice conferences.

## Research and Publications

### Detailed statement of proposed research

#### Research Field

UK public audit exemplifies both 'bureaucratic transparency', in which performance is made observable by independent experts (Hood 2007), and the 'audit society' (Power 1997), in which it is pushed into new domains. However, the concept and delivery of 'public audit' are under pressure including from:

1. More exposure to external political processes, arguably the result of extending audit from certification, regularity and propriety to Value-for-Money (VFM) and the risk of trespass into policy as the National Audit Office (NAO) and Audit Commission (AC) have become involved with the implementation of government initiatives such as the Private Finance Initiative and efficiency savings;
2. More requirements on audit offices to justify their priorities and methods in VFM terms and to contract out increasing proportions of work to private firms; and
3. More fragmented architecture of public audit: (a) territorially by the devolved administrations of Scotland, Wales and Northern Ireland with their own audit offices, (b) functionally by the NAO and AC jurisdictions, the contracting out of NHS Foundation Trust audits, and the pending abolition of the AC, and (c) in governance by the enactment of the NAO as a corporate body in tension with parliamentary oversight and the Comptroller & Auditor General's status as 'corporation sole'.

Although these pressures have been intense in the UK, the underlying issues are international (Garcia Crespo, 2005). In a world where credit rating agencies exert influence, weaknesses in government financial reporting have new salience. The age of austerity requires government to improve its use of public resources. Yet, regularity and propriety remain fundamental. In responding, public audit organisations face technical and resource burdens, contested judgements, and pressures from established political power that question legitimacy and organisational survival. Even in the UK where public audit is highly respected, the world of such pressure and challenge presents risks that (a) political attention will focus on the systems that *portray* performance, not on the underlying activity, and (b) the inherent and constructed barriers to fiscal transparency will disengage the supposed users of audit information (Heald 2012).

#### Research Objectives

Focusing on the UK and its constituent nations but alert to developments in other jurisdictions, this project will:

1. Evaluate the strengths and weaknesses of UK public audit in the light of task differentiation, territorial fragmentation, and the outsourcing of audits and assessments to private firms
2. Weigh task and organisational risks against likely benefits of these changes to structure and process

#### Research Questions

These developments pose four research questions:

- (1) **Who 'owns' public audit? (governance question).** The corporatisation of the NAO (initiated by Parliament), the abolition of the AC (central government decision) and territorial fragmentation (devolution Acts) demonstrate how contested this issue has become.
- (2) **To what extent should public audit bodies outsource their work and work of what kind? (delivery question).** The 1990s' experience of the Australian State of Victoria demonstrated that this is a strategic question defining the character of public audit (English, 2003).
- (3) **How should the performance of audit offices be measured? (performance question)** Evaluating the success of regulatory bodies is complex: they have multiple tasks, pronounce on judgemental areas and navigate difficult lines of policy implementation.
- (4) **How can civil society monitor public audit? (oversight-gap question)** If a public body's audited accounts

are questioned (e.g., off-balance sheet PFI treatment), there is nowhere to complain. No organisation has enforcement jurisdiction. In contrast, Parliament has legislated enforcement mechanisms for the private sector.

### Research Methods

Building on a proven robust approach in previous work, this will comprise a case study of the UK public audit system, informed by the following triangulation of methods, the findings being synthesised:

(1) **Analysis of UK and international literature on public audit:** to draw out ideas and lines of enquiry.

(2) **Systematic documentary analysis of primary sources** (the applicant reads French and English) to codify developments and issues.

(3) **Programme of elite interviews** with (a) public audit offices, (b) clients, (c) Parliamentary and government principals and oversight bodies, (d) professional institutes, private audit firms, think tanks, and (e) international organisations such as IMF and OECD and European Commission.

### Research Outcomes

The research outcome will be an analytically and empirically grounded understanding of key dimensions of public audit, communicated to academic, practitioner and public audiences through an authoritative research book.

### References

English, L. (2003) 'Emasculating public accountability in the name of competition: transformation of state audit in Victoria', *Critical Perspectives on Accounting*, Vol. 14, pp. 51-76

Garcia Crespo, M. (ed) (2005) *Public Expenditure Control in Europe: Coordinating Audit Functions in the European Union*, Edward Elgar

Heald, D.A. (2012) 'Why is transparency about public expenditure so elusive?', *International Review of Administrative Sciences*, Vol. 78 (forthcoming)

Hood, C. (2007) 'What happens when transparency meets blame-avoidance?', *Public Management Review*, Vol. 9, pp. 191-210

Power, M. (1997) *The Audit Society: Rituals of Verification*, OUP

## Major publications

**DAVID HEALD is the single author unless otherwise stated. Those publications particularly relevant to this project are indicated by an asterisk.**

\* 'Why is transparency about public expenditure so elusive?', *International Review of Administrative Sciences*, Vol. 78(1), 2012 (at proof; 20 pages)

\* (with G. Georgiou) 'The macro-fiscal role of the UK Whole of Government Account', *Abacus*, Vol. 47(4), 2011, pp. 446-76

\* (with G. Georgiou) 'The substance of accounting for Public-Private Partnerships', *Financial Accountability & Management*, Vol. 27(2), 2011, pp. 217-47

\* 'The implications for public audit of the abolition of the Audit Commission', in Communities and Local Government Committee, *Audit and Inspection of Local Authorities*, Fourth Report of Session 2010-12, Vol. I, HC 736, London, Stationery Office, Ev 124-27

\* (with G. Georgiou) 'Accounting for PPPs in a converging world', in G. Hodge, C. Greve and A. Boardman (eds) *International Handbook on Public-Private Partnerships*, Cheltenham, Edward Elgar, 2010, pp. 237-61

'Using management research to influence policy-makers', in C. Cassell and W.J. Lee (eds) *Challenges and Controversies in Management Research*, Abingdon, Routledge, 2010, pp. 275-91

\* 'The accounting treatment of Private Finance Initiative projects', in Treasury Committee, *Pre-Budget Report 2009*, Fourth Report of Session 2009-10, HC 120, London, Stationery Office, 2010, pp. Ev 50-52.

\* 'Reforming the governance of the NAO', *Public Money & Management*, Vol. 29(2), 2009, pp. 83-85.

\* (with G. Georgiou) 'Whole of government accounts developments in the UK: conceptual, technical and timetable issues', *Public Money & Management*, Vol 29(4), 2009, pp. 219-27

\* 'A reform too far', *Public Finance*, 21 November 2008, pp. 22-23.

\* 'Varieties of transparency' and 'Transparency as an instrumental value', in C. Hood and D. Heald (eds), *Transparency: The Key to Better Governance?*, Proceedings of the British Academy 135, Oxford, Oxford University Press, 2006, pp. 25-43 and pp. 59-73.

\* 'The implementation of Resource Accounting in UK Central Government', *Financial Accountability & Management*, 2005, Vol. 21(2), pp. 163-89

\* (with A. McLeod) 'Embeddedness of UK devolution finance within the public expenditure system', *Regional Studies*, Vol. 39(4), 2005, pp. 495-518

\* 'Fiscal transparency: concepts, measurement and UK practice', *Public Administration*, Vol. 81, 2003(4), pp. 723-59

\* 'Value for money tests and accounting treatment in PFI schemes', *Accounting, Auditing and Accountability Journal*, Vol. 16(3), 2003, pp. 342-71

(with A. McLeod) 'Revenue-raising by UK devolved administrations in the context of an expenditure-based financing system', *Regional and Federal Studies*, Vol. 13(4), 2003, pp. 67-90