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Transparency-generated trust: The problematic theorization of public audit

David Heald

Professor of Public Sector Accounting, Adam Smith Business School, University of Glasgow, Glasgow, UK

Correspondence
David Heald, Professor of Public Sector Accounting, Adam Smith Business School, Gilbert Scott Building. University of Glasgow, Glasgow G12 8QQ, UK.
Email: david.heald@glasgow.ac.uk

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Abstract

Public audit has been under-theorized, the existing literature too dominated by institutional description. Public audit may be interpreted as promoting transparency in order to generate trust, thus leading to legitimacy. Disaggregating transparency and trust, the article develops a subtler analysis of their role in public audit. By integrating collibration into the processes of economization, the governance of public audit and its operational activities are illuminated. Expected to be bloodhound, not just watchdog, public audit space is currently contested and can be forcibly evacuated. Transparency-generated trust might be the outcome, but providing a well-evidenced transparency should be public audit's mission.

KEYWORDS

collibration, economization, public audit, transparency, trust

This article addresses the under-theorization of public auditing in academic and professional literatures over-reliant on institutional descriptions rather than theoretical foundations. Where there is a theoretical basis for public audit, this is largely self-justificatory or drawn from a private audit tradition itself weakly theorized. It attempts to neither build incrementally on private sector theorization nor construct separate public sector foundations. The objective of this article is therefore to frame a distinctive theorization of public audit by elucidating the concepts of transparency and trust in terms of the roles of accounting as economization.

In considering this gap in theorization, several factors are identified. First, the role of public audit raises important questions about the functioning of states, particularly but not exclusively in relation to the disbursement and use of 'public money'. Second, significant resources are committed to public audit and, during this period of sustained austerity, it is unsurprising that there are questions about the value-for-money (VFM) of that expenditure. Third, emergent states have tended to copy the institutional arrangements of their former colonial powers, as evidenced by the widespread existence of Comptrollers and Auditors General (C&AG) in former British colonies and of Courts of Accounts in francophone and Iberian former colonies. Whereas these models are seen as key elements of democratic governance in the former colonial powers (White & Hollingsworth, 1999), the terminology has continued in countries with weak claims to be regarded as democracies. Mimetic isomorphism without recognition of context is a characteristic of public audit. Fourth, public audit institutions have continued, often superficially unchanged, throughout a period during which political attitudes to the state as service provider have significantly changed through privatization and the application of private sector management practices under the umbrella of new public management (NPM).

The print and broadcast media, even more so the internet, carry reports of how there is a crisis of trust in institutions, particularly regarding governments and politicians:

> *ONLY 40% OF CITIZENS TRUST THEIR GOVERNMENT*
> *Trust in government is deteriorating in many OECD countries. Lack of trust compromises the willingness of citizens and business to respond to public policies and contribute to a sustainable economic recovery.*
> *WHY TRUST IS IMPORTANT*
> *Trust is important for the success of a wide range of public policies that depend on behavioural responses from the public. Trust is necessary to increase the confidence of investors and consumers. Trust is essential for key economic activities, most notably finance. Trust in institutions is important for the success of many government policies, programmes and regulations that depend on cooperation and compliance of citizens (OECD undated website).*

There are doubts about what well-publicized surveys of trust actually measure and questions about the relationship between transparency and trust. The graphic which the OECD used to support its 40% headline is actually headed 'Confidence in national governments'. This supposes that trust and confidence are synonymous. Edelman (2015) reports 2015 survey trust percentages as average of trust in government, business, media and non-governmental organizations among the informed public, where 100 = complete trust in institutions. Categorizing 28 countries into three groups, the six 'trusters' are United Arab Emirates (84), India (79), Indonesia (78), China (75), Singapore (65) and the Netherlands (64). Among the 'distrusters' are the United Kingdom (46), Sweden (45), Ireland (37) and Japan (37). As the most internationally comparable measure of fiscal transparency, Open Budget Index 2015 (International Budget Partnership, 2015) records: United Arab Emirates (not scored), India (46), Indonesia (59), China (14), Singapore (not scored), the Netherlands (not scored), the United Kingdom (75), Sweden (87), Ireland (not scored) and Japan (not scored). These trust and transparency indexes give conflicting signals: the *Financial Times* headlined how 'Strongman leaders are more trusted than democrats in developing world' (Johnson, 2016).

This article's exposition is necessarily condensed, so it is useful to indicate where the assembled building blocks will take the argument. First, trust and transparency are such essential and complex requirements for public audit that they require analytical care, scepticism about rhetorical usage, and wariness of summary indexes which conflate non-commensurables. Second, the task of public audit is not to make citizens trust governments and politicians, but this might be an effect; the trust that should be valued is justified trust in the system of government, which does not necessarily require trust in particular governments. Third, the theoretical framework developed in the article provides a more secure foundation for public audit, showing how it fits into the broader system of political accountability and providing guidance on the perimeters of public audit beyond which it is inadvisable for public auditors to tread.

The analysis itself first considers the extant theorization of private audit, before setting out the typology of public audit institutions developed by Posner and Shahan (2014), which substitutes functional role for the legal basis classification that dominates the descriptive literature. This is followed by an 'Optimist's cyclical model of public audit'. This introduces the idea that the role of public audit is to inject transparency into the financial affairs of government, which in turn enhances trust in government and hence the legitimacy of democratic political institutions. Although intuitive and appealing, these mechanisms are based on assertion, and there are reasons not to accept this characterization.

Then the article explores what can be rescued from the notion that, by increasing transparency, public audit enhances trust and this then leads to legitimacy. It examines the applicability to public audit of Miller and Power's (2013) concept of economization, with its components of territorializing, mediating, adjudicating and subjectivizing. Then there is analysis of the detailed meanings of transparency and trust, and how they interact – indeed the circumstances under which they can each be expected to be socially beneficial. The concept of collibration (Dunsire, 1990, 2003; Hood, 1996) is integrated into the analysis of economization. This theorization is applied to recent developments in public audit in relation to institutional structures, governance arrangements and audit scope. The concluding section examines the practice and research issues arising from the analysis.

1 | SETTING OUT THE PROBLEM: THEORIES, INSTITUTIONS AND CYCLES

1.1 | Theorization of private sector audit

Wallace (1980) formulates a theoretical framework for private audit in terms of three hypotheses: agency theory, information and insurance. The dominant approach in the literature is built on principal–agent theory, with Wallace's other two hypotheses playing supporting roles. The separation of ownership and control means that shareholders are dependent on managers to run the businesses they own. Accordingly, directors provide periodic financial statements to shareholders, as owners of the company, who lack access to the business and are vulnerable to self-seeking behaviour by their agents. The purpose of the audit is that auditors validate the truthfulness of financial reports to shareholders prepared by the company's management. Profit-seeking audit firms are hired by shareholder-owners to check on managers, which is why auditor independence from clients is such a recurrent issue. Perceptions of independence matter: these may have more influence than 'independence in fact' (Porter, Simon, & Hatherly, 2014), as is indicated by repeated controversies about the provision to clients of non-audit services.

The second hypothesis concerns audit as the provider of validated information for capital markets. There is tension between this economic theorization of audit and case law which has restricted legal reliance on the audit by other than present shareholders as a collective body. The Bannerman clause, named after a famous case (*Royal Bank of Scotland v Bannerman*, *Johnstone Maclay [*2003*]*), is a standard feature of United Kingdom (UK) audit certificates which seeks to limit auditor liability. The information goes into the public domain, but the disclaimer weakens legal protection for other users.

The third hypothesis is labelled 'insurance' but fits into the blame-avoidance literature (Hood, 2014). Whereas the first two hypotheses refer primarily to benefits to the principal, here the main benefit goes to the agent. Having a clean audit, especially by a prestigious Big Four audit firm, provides legal and reputational cover for management should something subsequently go wrong. Disaffected shareholders regard auditors as 'deep pockets' while management can plead that they had hired the best-available professional advice.

There is a strand of auditing literature, Limperg (1932–33), Mautz and Sharaf (1961) and Flint (1988) being leading examples, which attempts to vocationalize auditing as a 'calling', carrying ethical responsibilities which elevate it above 'mere money-making' in the market for business services. Pronouncements from professional institutes and regulatory bodies emphasize the ethical responsibilities of auditors, particularly with regard to integrity, objectivity and independence (Financial Reporting Council, 2016).

1.2 | Typology of public audit institutions

The auditing of government financial statements is heavily derivative of private audit practice and concepts, reinforced by the increasing adoption of accruals accounting and of auditing standards based on tasks for which there is comprehensive regulatory and professional guidance, in part to afford legal protection against claims of negligence. However, the literature on public audit institutions tends to emphasize descriptions of what these institutions do and how they are organized (Bourn, 2007; García Crespo, 2005), rather than analyse how their role fits into political and social processes. Claims made for organizational success are difficult to assess.

Posner and Shahan (2014) reject the traditional institutional characterization of Supreme Audit Institutions (SAI) according to whether Executive-based, Legislature-based or Judiciary-based. The Napoleonic tradition of Court of Accounts is well represented in the countries of the European Union, though there is considerable variation in the extent to which they recognizably function as courts. Posner and Shahan classify public audit institutions in Figure 1 on two dimensions: degree of professional autonomy enjoyed by the institution; and degree of external influence exercised over it. There is an implication that the top right cell (High:Low) is preferable where the degree of professional autonomy is high and the degree of influence from outside is low. While independence from the Executive is the usual concern, a degree of independence from the Legislature is also important. The location of the Government Accountability Office in the High:High cell reflects the US separation of powers, and could be interpreted as a kind of

Degree of external influence over institution / Degree of professional autonomy exercised by institution	High	Low
High	Political (eg US Government Accountability Office)	Professional (eg UK National Audit Office, collegiate bodies)
Low	Hierarchical (government department)	Legal (Court of Accounts)

Source: Posner and Shahan (2014); minor clarifications by author.

FIGURE 1 Typology of public audit institutions

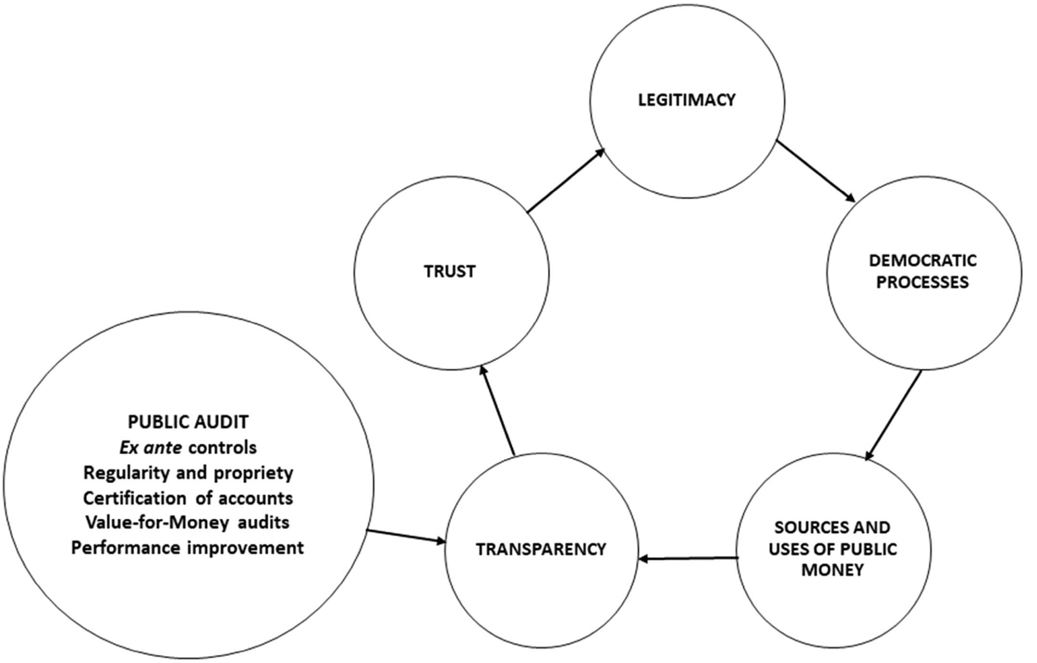
depoliticization. In parliamentary systems, too much influence from the Legislature over the public audit institution might lead to backdoor Executive control via political party management.

1.3 | An optimist's cyclical model of public audit

Figure 2 provides a schematic representation of the role that public audit might play in a democratic political system. It injects transparency into the cycle. The substantive content of public audit might include: *ex ante* controls before public money is disbursed; assurance about regularity and propriety; certification of government accounts; assessments of VFM; and performance improvement. In those jurisdictions which have embraced public financial management reforms (Allen, Hemming, & Potter, 2013), *ex ante* controls have been relinquished to the Executive, with the focus of public audit now being *ex post*.

The hypothesis is that transparency increases trust. In turn, trust contributes to legitimacy, which is then reinforced by democratic processes. Free and fair elections, supported by budget scrutiny by the Legislature, validate Executive decisions on public sector production and the use of public money. Effective financial controls over the sources and uses of public money then increase transparency; this virtuous cycle then gets repeated. More transparency is expected to lead to more trust and therefore enhanced legitimacy, but this asserted relationship could be challenged (Grimmelikhuijsen, 2012). For example, if public audit demonstrates that government is wasteful and corrupt, then there might be less trust and legitimacy than if such facts were concealed.

Some countries are characterized by weak or absent democratic processes, in which transparency about public money is less developed: examples are authoritarian states where the rulers combine political and religious authority and where property belonging to the state and to the ruler is not clearly differentiated. To the extent that public audit is functioning, it does not necessarily lead to public dissemination of budgets or accounts. In this case, the 'Transparency' node in Figure 2 would not be reached; trust generation would have to come directly from public audit activity. The mechanism is unclear, though possibly (some version of) trust might be enhanced because public audit satisfied the needs of a restricted set of permitted users. Public audit might be valuable to those dictators who wish to prevent 'outsiders' from stealing public resources.



Source: Author drawing.

FIGURE 2 An optimist's cyclical model of public audit

Although the optimist's model has some resonance with the way participants and researchers describe the role of public audit in a political democracy, the weaknesses of this cyclical model require attention. The complex meanings and practices of transparency and trust must be unpacked.

2 | A THEORETICAL FRAMEWORK FOR PUBLIC AUDIT: ECONOMIZATION, TRANSPARENCY AND TRUST

2.1 | The tools of economization

The literature of accounting shows an increasing interest in the roles that accounting plays in society. Miller and Power (2013) have registered accounting's claim to play a central role in the economization of organizational life, by which they mean

> *the processes and practices through which individuals, activities, and organizations are constituted as economic actors and entities, rather than the popular sense of reducing costs or making savings (p. 560).*

The Miller–Power framework is extensively used as a framing device in accounting and governance research, as exemplified by Bracci, Humphrey, Moll, and Steccolini (2015) and Kurunmäki, Mennicken, and Miller (2016).

The Miller–Power interpretation of economization emphasizes four interacting roles of accounting (Heald & Hodges, 2015):

- **Territorializing** refers to how accounting constitutes 'calculable spaces', establishing organizations as economic entities; NPM has led to many public sector organizations becoming newly perceived and self-perceived as such
- **Mediating** refers to how accounting links together actors and organizations by providing numbers which are treated as comparable, even when the underlying activities are not comparable

- **Adjudicating** refers to how accounting provides measurement bases on which the performance of calculable spaces can be evaluated, with accounting's spread into new arenas being a central feature of the 'audit society' (Power, 1997)
- **Subjectivizing** refers to how organizations and individuals, constituted as calculable spaces, are rendered subject to regulation and control by others, while remaining 'free to choose' within the constraints of financial norms or standards.

Whereas Miller and Power (2013) say little about auditing, appearing to subsume it within accounting, their four interacting roles of accounting can frame analysis of the scope and functions of public audit. Applied to the public sector, these roles of accounting are Executive-oriented, with the exception of adjudication where responsibility is shared with the Legislature. Yet public audit is implicated in the other roles. Its activities follow re-territorialization by the Executive and its adjudication activities become entwined in subjectivization, thereby complicating its relationships with audit clients and the Legislature.

The mediating and adjudicating roles of audit can be linked to Dunsire's (1990) three modes of public policy control: simple steering (hire the right people), homeostasis (formulate the right rules) and collibration (sustain the right competitive tensions). Dunsire (2003) conceptualized collibration as letting outcomes emerge, having structured public policy so that there are opposing maximizers. Collibration as governance mode uses 'selective inhibition of opposed maximisers', periodic 'ringmaster' interventions that 'tilt the balance' without destabilising the social or economic arena. Government steps back from production and micro regulation. Dunsire's examples include industrial relations policy (weaken trade unions vis-à-vis employers by legal changes), competition policy (restrain private sector oligopolies to preserve competition), utility regulation (make privatized utilities face sectoral regulators), mandatory information disclosure (strengthen shareholders vis-à-vis corporate boards), and electoral procedures (change voting systems). Collibration can have negative connotations, such as 'divide and rule' by colonial powers.

Public audit can be interpreted as part of a collibrating system designed to maintain competitive tension in relation to the use of public money and its regulatory substitutes. The identity of the ringmaster can be ambiguous: in 1983 the creation of the National Audit Office (NAO) was driven by parliamentary initiative (Hierarchical to Professional in Figure 1), but in 2010 the abolition of the Audit Commission was a unilateral decision of the Executive. If institutional roles within these constructed processes of tension are misunderstood by component parts, there can be damaging effects on stakeholders' views about the competence and integrity of governments.

2.2 | Conceptualizing transparency

It is unfashionable in public discourse to argue against more transparency because of the risk of being caricatured as having something to hide. However, the issues of how much, and what types of, transparency are socially beneficial are complex.

Heald (2003) considers the trade-off between the effects of sunlight (acting as disinfectant) and dysfunctional effects (adverse behavioural consequences), so that one can consider the optimal level of transparency at which 'effectiveness' is maximized. Notwithstanding the framing benefits of this formulation, it assumes that transparency is measurable and homogeneous, propositions which are dubious.

Heald (2006, 2012) analyses transparency in terms of 'directions' and 'varieties'. Direction is essentially about 'who gets to see'. Figure 3 shows that vertical transparency has two components. Upwards transparency is exemplified by managerial reporting to hierarchical superiors and by the visibility to government of subjects' actions. Surveillance is now a much-used term in debates about a wide variety of contexts, including state monitoring of individuals' movements and communications. The aftermath of the 2008 global financial crisis has seen the intensification of fiscal surveillance over sovereign states, particularly those within the Eurozone. Downwards transparency refers to the visibility to those who are being watched of the actions of holders of managerial or political power over, in varying contexts, individuals, citizens, public managers, lower-tier governments or nation states. Downwards transparency is associated with accountability to a wider audience that generally cannot enact agency-based claims.

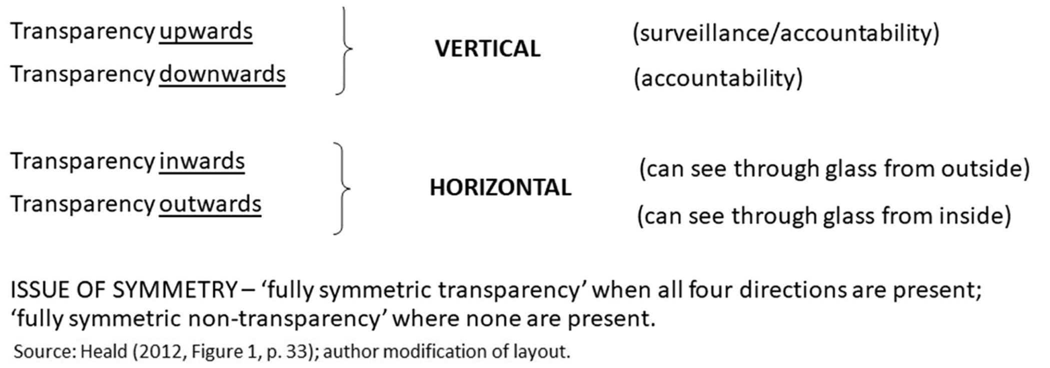


FIGURE 3 Directions of transparency

Similarly, horizontal transparency has two components, inwards and outwards. At the level of public organizations and governments, inwards transparency is about whether their activities and impacts are visible from outside. Outwards transparency is needed by organizations so that they can understand and navigate their external environment.

Turning to varieties of transparency, these can be represented in terms of contrasting but not mutually exclusive pairs:

- **Event and process**: whether the object of transparency refers to a defined event (e.g. production of outputs, reporting of financial results) or to the internal processes of the organization. The expectation is that focus on process is more likely to disrupt the activities of the organization, especially when this extends beyond procedures into operations
- **Nominal and effective**: whether transparency scores well only against formal checklist criteria or whether it communicates information to user groups capable of processing and using it. The expectation is that nominal transparency alone will lead to reduced effectiveness and increased user dissatisfaction. Effective transparency is achieved when the information is clear and unbiased, and there are users capable of digesting and acting upon that information, perhaps through intermediate users
- **In retrospect and in real time**: whether the reporting is delivered after the event, as in financial reporting for the year, or whether the transparency exposure is continuous. The expectation is that transparency in real time is more disruptive and costly, and more likely to lead to negative unintended consequences
- **Retrospective application and future application**: whether, on change in the transparency regime, this applies only to future activities. More controversial would be the sudden exposure of material believed at the time of production to stay confidential, not waiting for the personnel involved to have completed their political or managerial careers. The behavioural effects would be different: threats to disclose retrospectively – contrary to legitimate expectations – would provide leverage over individuals and organizations. Knowledge of future exposure would reduce record-keeping.

Notwithstanding the halo often attached to transparency, it is a multi-faceted concept, some manifestations clearly threatening to those who are subjected to it.

2.3 | Conceptualizing trust

Defining 'trust', the Oxford English Dictionary Online (undated) leads with 'Firm belief in the reliability, truth, or ability of someone or something' and continues 'Acceptance of the truth of a statement without evidence or investigation'. Such usage conflates expectations about the predictability of behaviour, the accuracy of information that is communicated, and assessments of competence. It may require the suspension of independent verification of statements; on some views, trust is a normative attitude not dependent on concrete evidence. Economic and social actors would desist from opportunistic behaviour which defaults on promises, commitments and contracts. These differentiated meanings of trust are further complicated by the term almost always having a positive connotation. Survey data on (declining) levels of trust are difficult to interpret because the user does not know the meaning which respondents have assigned to trust.

Various decompositions of trust have been proposed but that of Lewicki and Bunker (1995, 1996) is well known in the organizational and social psychology literature and has been applied to the context of public sector performance information by Pollitt and Chambers (2013). This literature starts with a discussion of trust in an interpersonal context, including the development of romantic relationships, and projects that on to business and political relationships (Hawley, 2012). The discussion here relates to political and social relationships, so care has to be taken with the transfer into different relationship contexts.

Lewicki and Bunker emphasize that their model is not normative, identifying three types of trust that develop sequentially as distinct phases:

- **Calculus-based trust** is their relabelling of Shapiro, Sheppard and Cheraskin's (1992) 'deterrence-based trust'. The reason for this relabelling is that Lewicki and Bunker stress that, at the beginning of relationships, trust is gradually built up by a mixture of conferment of rewards made possible through cooperation (e.g. reduction of transactions and monitoring costs), as well as through the threat of sanctions. This type of trust is instrumental and conditional on performance: repeated interactions and multiple points of interaction are promoting features. Evidence that trust has been misplaced can be met by low-cost termination of the relationship by the other party
- **Knowledge-based trust** might be built on the foundations of calculus-based trust when the relationship is characterized by enduring length and considerable interdependence. Both parties become knowledgeable about each other's activities and vulnerabilities. This renders termination of the relationship in the event of breach of trust costly because the assumption of trustworthiness based on a record of acceptable practice has been broken
- **Identification-based trust** is where the two parties to the relationship have complete knowledge of the other, metaphorically merging into one and able to act in the interests of the other, possibly against their own interests. Translation of this kind of trust from interpersonal romantic or family relationships to business relationships and to social and political relationships is problematic. Nevertheless, this is the basis for analyses of the trust that underpins national identity, derived from sources on a spectrum from ethnic to civic characteristics (Lenard & Miller, 2018).

Williamson (1996, p. 256) argues that 'Calculative trust is a contradiction in terms': his view is that trust relates solely to relationships not based on calculation. This is consistent with his concerns about opportunism. Some doubts might also arise about knowledge-based trust, as that is also underpinned by calculation, albeit in a more nuanced, less instrumental, way that emphasizes evidence (Pollitt & Chambers, 2013). The more that trust is reduced to identification-based trust, all calculation having been set aside, the more difficult it becomes to differentiate some of what is described as trust from deference to authority.

Gambetta (1988) explores the role played by trust and trustworthiness in the functioning of economies and societies, noting that their absence hinders development. He emphasizes that, though trust can be viewed in economic terms as contributing to an intangible asset (reputation), trust is renewed and regenerated through use, rather than being a depreciating scarce resource. Trust can be damaged or destroyed by breaches of trust. Trustworthiness attaches to particular individuals, organizations and systems/networks.

Large claims are made for the political importance of trust, Coulson (1998, p. 3) claiming that 'A successful democracy is one where the people trust the politicians, and the politicians speak for and unite the people'. Greiling (2014) sets out the complex interactions between political accountability and trust, making arguments that parallel those by Olson (1996) that trust is vital for the functioning of market economies. In much of the literature, trust is viewed as an element of social capital:

> *Robert Putnam … sees trust … as one element of social capital – one of those 'features of social organization', along with norms and networks, 'that can improve the efficiency of society by facilitating coordinated action' (Putnam, 1993, p. 167) … Trust provides the oil for social interaction and associations, and in turn is a product of them (or, at any rate of some of them) (Tonkiss, 2004, pp. 17–18).*

Labelling such lubricating oil as 'trust' attaches too much normative significance. Tonkiss (2009, p.199) differentiates confidence and trust:

> *Of course there is a large shaded area between these two categories but, in short, relations of confidence tend towards the side of objective information, external regulations over conduct, contractual agreements, rational and informed decisions; while relations of trust tend towards subjective perceptions, moral sanctions, gentlemen's agreements, non-rational choices. In the absence of mechanisms of confidence (information, law, contracts), one must fall back on trust (perception, moral obligation, social bonds).*

This reminds us that some statements using the terminology of trust are expressing confidence in the reliability of a third party, in the sense of 'ability to perform' ('competence trust'), or in that third party's intentions not to engage in opportunistic behaviour when dependence creates vulnerability ('goodwill trust') (Nooteboom, 1996).

2.4 | Does transparency generate trust?

There are two elements underpinning O'Neill's (2002) view of transparency as being corrosive of trust, and thus damaging. First, transparency is treated as homogeneous, without the distinctions made in this article. Second, audit as an accounting practice has, by territorializing, economized activities and entities not formerly conceived in such terms: for example, professional practice in medicine, teaching and social work. Activities formerly left to professional self-regulation have been made more transparent, the argument being that this would increase effectiveness and accountability. One consequence has been to subject these activities to managerial rather than professional control. Transparency is opposed by O'Neill because it is viewed as an instrument of principal–agent control, often in unfamiliar contexts; transparency is held to have been weaponized against professions and their expertise. Moreover, van de Walle (2011) interprets the institutionalization of mistrust as an NPM instrument.

Returning to the disaggregation of trust, identification-based trust eliminates the principal–agent problem. By assumption, the agent acts as if they are the principal: the government can be completely trusted, removing some of the rationale for public audit. The same would be implied for private audit if complete identification-based trust were assumed. This 'resolution' has two problems. First, it is implausible: corporate governance failures in private sectors and widespread evidence of corruption and waste in public sectors reject this assuming away of principal–agent problems. Second, identification-based trust in the political domain is problematic (Hardin, 1999). There are circumstances where it might be useful, as when a nation state faces an existential threat, for example, when threatened by invasion or extinction. In most other circumstances, complete identification-based trust would remove the challenge and scrutiny function of the Legislature, whose only role would be supporting the Executive. Hardin (2002) contends that measures of declining trust in government are incoherent, not only because the bases of interpersonal trust cannot be transferred but also because a citizen cannot have sufficient information beyond extrapolated expectations. In his view, there is asymmetry between trust (the opposite of which is no trust) and distrust, for which there can be evidence; disruption of ungrounded faith by evidence is to be welcomed, not deplored.

There are important differences between having trust in government (this sounds generalized), trust in a particular government (this may be withheld because of opposition to a particular government's policies), and trust in a democratic system of government (which allows government to be praised but a Government damned, and provides periodic opportunities to eject it from office). Having de-emphasized identification-based trust, Tonkiss (2009) categorizes the bases for trust, specifically but not exclusively in relation to financial markets, as *information*, *contracts* and *regulation*. Such bases indicate some overlap between the bases for trust and those for transparency. Instead of transparency generating trust, this suggests that they might derive from common bases.

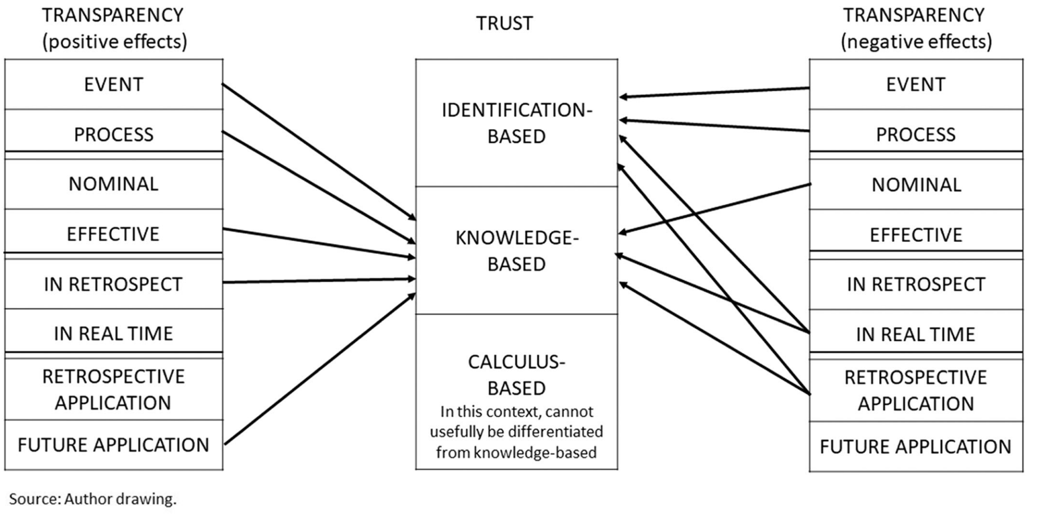


FIGURE 4 Effects of varieties of transparency on trust

Figure 4 provides a summary of the main hypothesized effects from transparency to trust. The left-hand and right-hand columns show the four pairs of transparency variety, while the middle column shows the three types of trust. For diagrammatic clarity, it shows positive effects on trust as coming from the left-hand column depicting varieties of transparency and negative effects as coming from the right-hand column. Although the central column on trust shows Lewicki and Bunker's (1995) three types, Figure 4 embodies the judgement that, in the context of public audit, knowledge-based trust and calculus-based trust cannot be practically distinguished.

The positive effects all work through knowledge-based trust. Event and process transparency, effective transparency, transparency in retrospect, and transparency regime changes applying to the future, are hypothesized to be beneficial. In contrast, the negative effects work through both identification-based and knowledge-based trust. Identification-based trust does not derive from information. The release of information perceived to be bad about organizations or governments may erode pre-existing identification-based trust; positive information will not register. Knowledge-based trust will be damaged where transparency is nominal (this will in time be exposed as misleading), where transparency in real time brings noise that impedes communication and undermines performance, and where retrospective application undermines expectations of confidentiality.

3 | APPLICATIONS OF THE THEORETICAL FRAMEWORK TO THE PRACTICE OF PUBLIC AUDIT

How does the above theorization illuminate how public audit might generate trust through transparency? Public audit has long been an exemplification of 'regulation inside government'. However, that academic literature pays limited attention to public audit, illustrating the extent to which such analysis has been Executive-focused. There has been much less interest in 'Parliament's watchdogs', an exception being Gay and Winetrobe (2008).

3.1 | Mapping public audit to directions and varieties of transparency

The directions of transparency most obviously relevant to public audit are:

- **downwards transparency** (the accountability of rulers to the ruled)
- **inwards transparency** (enabling others to view the activities of audited organizations)

This particular combination is present in most justifications of public audit institutions. Yet such a characterization neglects the role that public audit plays in economization, particularly in the roles of territorialization and subjectivization. Those who are essentially hierarchical superiors are often the most active users of the outputs of public audit:

- **upwards transparency** (Finance ministries and the parent ministries of public bodies for the purposes of control and accounting consolidation)

A consequence of greater fragmentation in public service delivery is the increased importance of the benchmarking of organizational performance:

- **outwards transparency** (public organizations need to 'see out', for example, how their management capabilities and performance compare with those of comparable bodies).

Outwards transparency is vulnerable to neglect because the diffused benefits do not primarily accrue to the public audit institution or to the Executive.

Public audit has wide coverage of the four pairwise elements in Figure 4. Public audit institutions will come under pressure to make pronouncements based on transparency in real time, perhaps in order to please the Executive or to be seen to be relevant to the Legislature and media. However, they should not take over the roles of governance and management, otherwise their core functions are compromised. Audit is predominantly concerned to assess past performance. Attention to process is an inherent feature of public audit, making its remit wider than that of private audit which has been mostly focused on financial statements. Nevertheless, 'audit society' pressures have increased the attention that private audit pays to internal control and governance, narrowing some of these differences.

3.2 | The operational substance of public audit

The starting point for this analysis is the operational activities of public audit, which must be accomplished within frameworks contingent on inheritance and political decisions. There are various ways in which operational activities might be categorized, but the one chosen here follows Figure 2: *ex ante* controls, regularity and propriety, certification of financial statements, VFM audits, and performance improvement.

3.2.1 | *Ex ante* controls

The comptrollership role of the C&AG has almost disappeared because the issuing of funds relies on Executive controls exercised at a high level, and not on *ex ante* controls by audit institutions. Such *ex ante* procedures might be interpreted as building confidence about the disbursement of public money in circumstances of low administrative capacity and/or trustworthiness. Some of what public auditors do is contingent on the national budgetary process.

3.2.2 | Regularity and propriety

'Regularity' has a specific meaning in this context, to the effect that the use of resources conforms to the pattern of spending approved by Parliament (Treasury, 2015). In contrast to ensuring 'propriety', regularity is largely assured when there are well-functioning Executive processes, for example, for virement and Supplementary Estimates. There is huge sensitivity about the use of public money because it represents resources extracted from households and firms through the exercise of state power. Incidents of impropriety that would not be material to financial statements in a private audit will attract attention, often excessively so in relation to their quantitative importance. The resource cost of procedures designed to prevent fraud may exceed the value of fraud reduction, though the intention might be to catch potential irregularities at an early stage.

This responsibility for propriety goes well beyond that required of private sector auditors, involving adjudication in the Miller–Power (2013) sense, yet this is in relation to activities and contexts over which public audit institutions have limited or no control because of the political environment and government architecture. Certain countries are known to be incorrigibly corrupt, for example, in relation to public procurement, often with the active participation of rulers: yet most have designated SAIs belonging to the International Organization of Supreme Audit Institutions (INTOSAI). Such rulers do not wish the public audit institutions, however configured, to inject transparency into such matters. Adjudication is suppressed, external influence being incapacitating, though a pretence is often maintained.

Even when corruption does not flow from the top, public audit institutions are vulnerable to the Executive's control over the architecture of government. In England, there have been warnings about increasing risks to propriety arising from policy-driven fragmentation of school education and health care. A specific issue is the growth of related party interests, as when private deliverers of public services contract for services with firms that they own or control (Audit Commission, 2015). Simultaneously, there have been reductions in public audit resources.

These examples illustrate public audit's vulnerability to Executive power. Yet, contrary to Mr Justice Lopes' judgment in the *Re Kingston Cotton Mill Company No. 2 [*1896*]* case on the private sector auditor's duty of care, public auditors are expected to be bloodhounds that chase down proactively, not just watchdogs. The audit-expectations gap confronting public audit institutions risks becoming unmanageable, not least because notions of commercial confidentiality are increasingly used to justify reduced transparency in contractual matters.

3.2.3 | Certification of financial statements

This is a professionalized activity with ground rules derived from international standard setters and subject to external supervision, in the UK by the Financial Reporting Council. Audit and assurance represents 59% of the NAO's (2018, p. 30) proposed gross resource requirement in 2018–19. This is where UK public audit is most like private audit, following largely common standards after the conversion of government accounting to accruals. The Sharman Report (2001) established as a fundamental principle that UK public sector organizations should not choose their own auditors, a position to which the Treasury (2002) then assented. The denial of this principle by the 2010–15 Conservative–Liberal Democrat Coalition, in relation to English local authorities, was a landmark example of public audit being rolled back by Executive action.

Whereas accounting plays the territorializing role, auditing reinforces the subjectivization of public organizations. Nevertheless, some governments have challenged public auditors' existence, prominent cases being the enforced outsourcing – later partly reversed – of the Victorian Auditor-General's Office (English, 2003) and the abolition of the Audit Commission (Ellwood & Garcia-Lacalle, 2012). Governments legislated on the basis that the private sector would undertake the work more cost-effectively, though the underlying motivation was to suppress criticism and settle scores.

Historically, public audit institutions undertook all their audit work in-house, but this changed from the 1980s in response to the outsourcing agenda associated with NPM. Without the label of 'metaphytic competition' (Corbett, 1965) being attached, UK public audit institutions developed a model of having a large in-house capacity (circa 70% of audit value) flanked by a competitive fringe of private sector audit suppliers (circa 30%). Top managements saw these arrangements as exerting cost discipline on the in-house operation through benchmarking, while facilitating low-cost learning from the Big Four and other private audit firms. There are several reasons why the public audit institution might wish to retain in-house capacity, even when there are external substitutes. First, without the in-house capacity, operational knowledge required for procurement of audits would be lost. Second, bargaining power with private suppliers would be weakened. Third, there might be economies of scope in combining within one organization the capacity and skills to undertake other activities, such as fraud prevention, asset protection and VFM audits. Fourth, size and scope are relevant to a public audit institution's positioning in Figure 1. Private audit firms competing for public audits have less incentive to resist external pressures, especially when their other business with the Executive is likely to be more important financially than certification.

3.2.4 | VFM audits

The NAO (2018, p. 30) allocates 20% of its 2018–19 proposed gross resource requirement to VFM work and 13% to 'investigation and insight'. The NAO publishes about 60 VFM reports each year, these representing a feedstock for the

House of Commons Public Accounts Committee's twice-weekly hearings. Internationally, public audit institutions have similarly moved into VFM auditing (Hoque, 2015).

This extended use of the term 'audit' aligns with Power's (1997) concept of the audit society, which stretches beyond the public sector and encompasses most of economic and social life. VFM work brings new opportunities for public audit institutions to be seen to be useful, but exposes them to substantial risks. First, notwithstanding the work of INTOSAI, VFM audit unsurprisingly lacks authoritative standards comparable to those for financial reporting and certification audit, and also comparable external supervision of quality (though there is some peer review). Changes to the design of government complicate the VFM task, for example, in relation to outsourcing and public–private partnerships. Contractors retreat into the specific requirements of their contracts and are reluctant to share information with other providers, whose cooperation is required to deliver the overarching policy outcomes.

Second, VFM auditing has to work on the contested assumption that policy can be separated from implementation. This is important because public auditors cannot question government policy but can examine how chosen policies are implemented. This has unsurprisingly led to governments attaching 'policy' labels to particular tools such as privatizations or institutional restructurings. Skilful narrative construction by the Executive can limit the issues that VFM audit can cover and leads to scrutiny gaming by proactive auditors. Much depends on the willingness of governments to submit to scrutiny and on the courage of the leaders of public audit institutions.

Third, a public audit institution has a great advantage over outsiders in that it sits inside the government's information perimeter, facilitated by untrammelled access to documents that others would not see until much later, under the rules for the release of government documents, by which time the political significance might have faded. The capacity of civil society organizations and academics to make use of this material will vary across countries, but – even where this is weak – the potential use is likely to bring some discipline to the processes of policy making and implementation. VFM audit is conducted with hindsight, after many of the uncertainties faced by decision makers have been resolved. Especially when there is aggressive releasing to the media to attract attention and later hostile questioning of public officials, the effect can be damaging. Negativity bias in media coverage results in wasteful and blundering government being 'news' whereas 'government does well' sinks without trace. This is compounded by party conflict (oppositions see opportunities in failure) and media political agendas (ideological antagonism to the public sector or to particular governments).

Moreover, the public audit institution may be encouraged to validate decision-making at the time of decision (ACCA, 2014), on the argument that public resources are constrained and better decisions are in the public interest. Such *ex ante* validation of decisions undermines the actual and perceived independence of *ex post* assessment.

3.2.5 | Performance improvement

Given audit society developments, it was probably inevitable that public audit institutions would become implicated in Executive programmes to make government leaner, more efficient and more effective. Such a role can be difficult for a public audit institution to refuse, without rendering itself irrelevant and alienating the Executive and/or Legislature. Yet becoming too involved in performance improvement risks compromising perceptions of audit independence, both in terms of certification and VFM.

The Audit Commission, then responsible for local government and health audits in England, embraced the improvement agenda of the 1997–2010 Labour Government. It took on a subjectivizing role over elected local authorities and appointed NHS bodies, with as much enthusiasm as if it had been fully part of the Executive. Much of this was constructive (Abu Hasan, Frecknall-Hughes, Heald, & Hodges, 2013), yet it lost the support of its stakeholders, facilitating its own abolition along with its performance management regime. This ended the sectoral studies that had been valuable in identifying common problems and had enabled local authorities and health bodies to assess their own position relative to their peers, an example of outwards transparency. The NAO stepped in on a small scale to compensate for the gaps created by this abolition, but this constituted an evacuation of public audit space at the command of the Executive.

3.3 | The architecture and governance of public audit

Posner and Shahan (2014) attach labels to the cells of Figure 1, whereas this discussion has emphasized the row and column descriptors of the two-by-two matrix. The cells represent, albeit in a dichotomized way, the architecture of public audit. The 'Legal' cell (Low:Low) derives its characteristics from being quasi-judicial, which protects the public audit institution from external influence but marginalizes it from economization by shaping its discourse in terms of legal duties and rights.

Quite different is the 'Hierarchical' (Low:High) cell, which sees the public audit institution constituted as a government department, sometimes within the civil service; this model is now in decline internationally. Rather than being an arbiter providing assurance about a principal–agent relationship, the public audit institution might be viewed as an enforcer on behalf of the principal. This would increase its role in territorializing and subjectivizing.

The top right High:Low cell is likely to be populated by public audit institutions that report to the Legislature rather than the Executive, and whose functions are not seen as administrative or legal. The accountability to Parliament of accounting-dominated public audit institutions can operate through bodies such as the UK Parliament's Public Accounts Commission (TPAC) which approves the NAO's three-year Strategy document and whose Chairman presents the NAO Estimate to Parliament. This has the advantage of protecting the NAO from a dismissive Treasury and of distinguishing between TPAC's oversight role and that of the Public Accounts Committee as the main client of the NAO's work.

These accountability foundations can be fragile. Two contemporary issues are the relationship between a public audit institution's Board and its C&AG (or equivalent title), and between a C&AG and the Chair of the parliamentary Public Accounts Committee (or equivalent title). UK experience since 2010 indicates that these are more dependent upon who holds these positions than might have previously been thought.

Architecture and governance affect how public audit institutions are embedded in their political system, where tacit knowledge of opportunities and risks is important. Those in leadership positions have to navigate minefields, maintaining professional independence and integrity (vital for autonomy) while managing the channels of external influence (vital for relevance and perhaps survival). A recent change, the full implications of which have not yet emerged, is that three of the four heads of UK public audit institutions hold office on fixed-term non-renewable contracts.

4 | CONCLUSION

4.1 | Transparency-generated trust

There is tension between analyses that emphasize collibration and the expectations of the OECD (2017) that better governance of public sectors will rebuild public trust in government. Governance failures have plausibly contributed to declines in public trust in the context of low growth, globalization, austerity, widening inequality and the electoral success of populist parties. Yet it is doubtful whether improved public governance in terms of competence and ethical conduct will dramatically improve scores on whatever trust surveys actually measure.

Indeed, greater transparency is likely to damage identification-based trust because it will highlight complex processes, difficult trade-offs, and areas of under-performance. It cannot strengthen identification-based trust because the sources of that lie elsewhere. Transparency about the performance of government might increase knowledge-based trust, but the effect could be the reverse. Reported performance might be bad; the entire focus of media coverage and political reaction might be upon (isolated) cases of bad performance; and the complexities of interpreting performance data might bewilder rather than inform (Pollitt & Chambers, 2013).

This does not mean that public audit institutions should abandon the objective of bringing transparency to public finances, but expectations of trust generation should be modest. Public audit institutions perform the adjudication role with substantial independence from the Executive (which is conflicted by its responsibilities for production and regulation), with the Legislature (often Public Accounts Committees, or equivalent) as the primary client alongside the

ECONOMIZATION

Territorializing	Mediating	Adjudicating	Subjectivizing
Accounting constitutes calculable spaces, defined on the basis of physical space or abstractly conceived space. Public sector organizations and activities (e.g. in defence, education, health care), now perceived and self-perceived as economic entities, would not have been so in the past. Public audit plays an enforcement role, without questioning the architecture resulting from the territorializing effects of accounting. This can cause tension with audit clients and their stakeholders.	Public audit operates within the Executive's information perimeter. This brings responsibilities to those, including the Legislature and its Committees, which are reliant on publicly available information. Communication that improves transparency about the operation of the public sector is key to the construction of trust in the democratic system and hence its legitimacy. The mediating role of public audit can be interpreted as discharging defined responsibilities within a collibrating system.	Adjudicating is the primary role of public audit. It closely follows private sector audit procedures for the certification of accounts, based on well-articulated standards enforced by professional and statutory regulation. This affords protection that is not available for propriety (public expectations are fluid) or VFM audit (which are not based on comparable standards or procedures). Adjudication is largely an *ex post* process, notwithstanding its impact on the future.	The expansion of the scope of public audit implicates it in subjectivization, often as an accessory to Executive action. *Ex ante* involvement in, for example, macroeconomic forecasting, evaluation of large infrastructure projects or IT procurement, introduces 'self-review threat' and puts in doubt 'independence in appearance'. These dangers are multiplied when the role of performance improvement agency is willingly adopted by, or imposed on, the public audit institution. Public audit space can be forcibly evacuated.

Source: Author extension of Miller and Power (2013).

FIGURE 5 Miller–Power framework applied to public audit

media and a diffuse public. Public audit institutions are important actors in the working through of subjectivization. The collibration mode of control promotes competitive tension, and that is the environment within which public audit institutions in democracies must operate. There are parallels in terms of Executive regulation: Laffont and Martimort (1999) argue for splitting responsibility for economic and social regulation, for example in the context of privatized utilities, on the grounds that regulatory competition is a safeguard against capture.

Public audit is only part of the picture: adjudication provides evidence that others outside government do not have the capacity to access, and then public audit is part of the competitive tension around the interpretation of government performance. Transparency-generated trust might be an outcome, but providing well-evidenced transparency should be the mission.

4.2 | Situating public audit within the Miller–Power model of economization

Both transparency and trust are more complex phenomena than is suggested by rhetorical appeals which bundle together different elements. Some types of transparency can incentivize organizational performance and others may be dysfunctional. Some types of trust support the functioning of market economies and political systems, but appeals to identification-based trust become unnerving. The type of trust that is generally beneficial in this public audit context is knowledge based. The arrows in Figure 2 provide a still-valuable perspective on the role of public audit, even though optimism has to be tempered. The transparency–trust–legitimacy path is fragile.

Figure 5 summarizes how public audit fits into the four roles of the Miller–Power (2013) model of economization. Unsurprisingly, adjudication is the most prominent role, this being a traditional audit function. Vitally important is the distinction between, on the one hand, certification audit and, on the other, VFM audit and performance improvement. The latter two share the characteristic that they are more judgemental than regularity or certification audit, lacking external validating criteria. Moreover, performance improvement work in relation to audit clients brings multiple threats to independence and objectivity, including self-review threat (Porter et al., 2014). Audit client resistance to subjectivization from above can be deflected on to the public audit institution, risking unilateral Executive seizure of public audit space (Timmins & Gash, 2014).

Public audit plays the mediating role of establishing a common language for communicating the bases for adjudication. Upwards transparency is relatively straightforward as it involves public audit providing the assurance characteristically required in a private sector principal–agent relationship. Mediating is vital to public audit's tasks of securing downwards and inwards transparency, neither of which may be welcomed by the Executive or by audit clients. The most effective contribution to mediating is likely to be from the way public audit facilitates collibration through the systematic and comparable information it puts into the public domain. It functions as the guardian of the public's entitlements to rights in government financial information that were proclaimed by Likierman and Creasey (1985).

The theoretical framework developed in this article could productively be used to illuminate the substance of public audit work and the actual autonomy of superficially similar SAIs that must operate in diverse contexts. Interestingly, the Nordic SAIs, which play an active role in capacity building across the world, appear not to face the political constraints on performance improvement work that have characterized recent UK experience (Jeppesen, Carrington, Catasús, Johnsen, Reichborn-Kjennerud & Vakkuri, 2017).

4.3 | Implications for public auditors

Academic concerns about the autonomy and scope of public audit under NPM, expressed long before the current fiscal austerity, have proved prescient (Bowerman, Humphrey, & Owen, 2003; Pollitt & Summa, 1997). Public auditors are leading adjudicators, for which they claim expertise and have access to evidence. After a period of expanding scope from the 1980s, with the growth of VFM audit and the greater demands of accrual-based financial reporting, the risks of pushback are now severe. With some actors expecting public audit institutions to be bloodhound, not just watchdog, existing public audit space is contested, not least by the Executive. This has taken several forms: curtailment of activities (Audit Commission's sectoral studies and performance assessments of health and local government), outsourcing of large segments of certification audit to the private sector (closure of Audit Commission's District Audit Service), and increased Executive resentment of VFM activity in the context of an unprecedentedly long period of fiscal austerity, which has reduced departmental capabilities.

The risks to public audit institutions stem from their involvement in subjectivization, which largely stems from their focus on the wider performance of their audit clients. The findings of VFM audit are easier to challenge, often on the basis that they are 'old hat'. These risks intensify when the public audit institution undertakes performance improvement work at the behest of the Executive, complicating its relationships with audit clients, and leaving it vulnerable to ministerial opportunism, or a change of government or of government priorities.

Democratic governance requires that public audit institutions should not substitute for weak Executives, except in restricted areas such as accounting systems implementation (as in the conversion to accruals accounting) and anti-fraud initiatives. Wherever possible, invitations to 'help' the Executive should be resisted, unlike the NAO auditing the assumptions underlying the Treasury's macroeconomic forecasts in the 2000s, a task for which it was not technically equipped and on which it accepted an indefensibly restricted remit. The NAO was rescued from this blame-shifting exercise by the creation of the Office for Budget Responsibility immediately after the 2010 General Election. A corollary is that the public audit institution, though accountable to the Legislature, must maintain its independence from the political agendas sometimes pursued by Public Accounts Committees.

The leadership of public audit institutions is necessarily a complex balancing act that should not take place in a theoretical vacuum. In the context of continued austerity and divisive arguments about the size and scope of the state, the public audit institution must understand its position within contested policy space and understand how collibration works. Its best defences against Executive pushback and fears of marginalization are to ensure the independence and quality of its core activities, and to resist extensions of scope that might compromise its reputation and independence. Public audit cannot compete with the instant judgements of the commentariat and social media. Wanting to be seen as 'still relevant' would be understandable, but dangerous.

ORCID

David Heald http://orcid.org/0000-0002-1437-2951

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