

## Chapter 16 – Where is Public Sector Auditing: A Comparative Analysis

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### Abstract

This chapter summarises the analysis of the preceding chapters. Whilst different countries use different models for their audit, some continuities do emerge. The audit explosion has led to the advance of both financial and performance audit. Inspection however remains an infrequent feature of the audit landscape. Many countries have a localised system of local audit in which the role and influence of audit is variable. Furthermore, the audit of local government lacks a clear democratic role at the moment.

Keywords: Regulatory space; Public sector auditing; local government; International Comparison

### 16.1 Introduction

This volume has examined local government audit in fifteen different countries. Its purpose is to compare local government audit across those jurisdictions using the framework developed by Ferry and Ahrens (2021). They broke down local government audit's regulatory space into four different components. These were the structure of local audit arrangements, the independence of the auditor and how it was or was not guaranteed (including how competition between auditors was managed), the scope of the audit and lastly the ways that inspection and performance were measured through or integrated into audit. Ferry and Ahrens (2021) used this structure to interrogate audit arrangements in the United Kingdom. In this volume, participants have used the same structure to expand the analysis to cover fifteen different countries across the world. These countries have different political contexts- both in terms of their fundamental political system (China is the only non-democracy analysed here but the democracies all differ in terms of their structure) and in their recent political history. However, given the internationalising impetus behind public sector audit at the moment, (Free et al. 2020), it is appropriate to use the same structure to examine the ways in which countries have constructed audit.

### 16.2 Audit Space and Structure

Audit structures could differ between countries in two main ways. Firstly, a country could employ a national auditor to audit all local government- or could employ separate auditors to audit each individual local entity. Secondly, a country could mandate a national approach to each separate auditor or could allow each local entity to set its own expectations for its own auditor (or allow an intermediary authority such as a state or devolved government to do this). Table 1 summarises the approach taken by each of the countries involved in our sample.

These are set out in Table 1.

**Table 1: Audit Space and Structure**

Country	Carried out by local or national auditors?	Local/National remit
Australia	State level	Regional remits
Austria	Partial: some SAI, some regional audit office	Regional remits
Brazil	Regional	National mandate but no national standardisation of audit practice
China	Local audit institutions work for different tiers of government and the national audit institution	National remit set by the National Audit Institution
England	Local	National standards
France	National through regional subsidiaries	National remit
Germany	Local (Dependent on what the higher level government body is)	Regional remit
Italy	Local/National	National Remit
Netherlands	Partial: Local financial audit, National performance audit	Partial: national regulation and local interpretation
New Zealand	National	National remit
Portugal	Local/National hybrid	National standards
Spain	Regional	National
Sweden	Local	Local variation
Switzerland	Local	Local remits

What this analysis demonstrates is how different the various countries in this study are. There are obvious differences which demonstrate the different political and democratic constructions within which audit operates. So many states set out that audit should be organised around local government or allow local government to procure, in some sense, its own audit. Only New Zealand has a Supreme Audit Institution which directly controls local audit and administers it. In France and China, the regional branches of the Supreme Audit Institution audit local government- a slightly less centralised version of the New Zealand system. In some countries, England, Italy and the Netherlands, there are partially local, partially national systems. In both England and Italy, the SAI reports to Parliament so that it can hold the government to account for its approach to local government. The distinction between local and national systems of audit has important consequences. When each local government organisation has its own auditor (appointed to audit it such as a local audit office or procured), even if they have exactly the same remit, they can and will take different approaches to the audit of each area. This can lead to fragmentation as different auditors take different approaches and local audit lacks consistency across the country, as for example in Brazil.

However, consistency need not be an object in local audit systems. In Australia, Switzerland, Germany and Austria: your location determines the kinds of right that your auditor has to inspect public money. Consequently, in these countries, the precise meaning of democratic citizenship is not linked to your membership of a national community- but to your membership of a state, region or lander within that community. These differences do not permit consistency in audit approach to develop, but more importantly, they mean that the content of financial accountability differs in different areas of these countries. This asymmetrical audit is strongest in countries whose democratic governance is anchored

within local communities- ideologically as well as practically. In Switzerland, Horni and Kohl, show that auditing follows the principles of the Swiss constitution, with power and responsibilities decentralised to the lower government levels. Within the UK, our chapter focusses on England, as Scotland and Wales have different systems due to the devolution of powers to their legislatures (Ferry and Ahrens, 2021). However, even in a country with a highly centralised system of audit, there can be historical exceptions: in New Zealand there are specific arrangements for the performance audit of the Auckland City Council. Overall, in most cases, inconsistent audit is one demonstration of the country's acceptance of regional or local autonomy.

### 16.3 Audit Independence and Competition

The second of Ferry and Ahrens's (2021) four categories was independence. Again different countries had different approaches to independence and safeguards in place to ensure it. These are set out in Table 2. We have subcategorised protections of independence into different types; these include:

- An independent legal status (eg. Officer of Parliament or Justice of a Court)
- Formal Protections in law (eg. Constitutional guarantees)
- Administrative protections (eg. Appointment criteria)
- Supervisory powers (eg. Appointment by the body to whom audits are due).

The different protections in each country are laid out below in Figure 2.

**Table 2: Different approaches to independence**

Country	Protected Legal Status	Formal protections in law	Administrative Protections	Supervisory Powers
Australia	Officer of the House			
Austria		Guaranteed in Law		Legislative and popular involvement in audit work programme
Brazil			Appointment conditions	
China		Enshrined in law	Conditions set out by National Auditor	Accountability to higher audit body and higher tier of government (to that which is being audited)
England				Regulated audit industry
France	Judges			Integration with Cours de Comptes.
Germany		Appropriate funding guaranteed by law		Appointment by Council
Italy			Professional protections,	Some audits carried out by

			relationship with the court of accounts, pay	the Court of accounts
Netherlands			Mandatory rotation. Courts of Audit cannot include members of the municipality.	Appointment by council
New Zealand	Officer of the House	Enshrined in statute	SAI sets out ethical and independence requirements	
Portugal		Independence codified		Nominated by council
Spain		Guaranteed in constitution.		Appointed by Parliament
Sweden				
Switzerland		Guaranteed in constitution and/or municipal law.	Differs between cantons.	Differs between cantons.

From the table above, it is evident that independence means very different things in very different countries. There are political differences which emerge out of the institutional set up of the country concerned: Westminster democracies tend (for example) to make their Auditor Generals, officers of the House (Australia and New Zealand) which gives them independence from the executive, whereas in countries where the audit is based in courts, the auditor is afforded protections through being part of the judicial branch of government (France). In these cases, often, local audit is part of the supreme audit institution's infrastructure and this enables the constitutional protections granted to the supreme audit institution to be passed down to the local auditor. This is not always true- the Austrian supreme and regional audit institutions are both protected by law.

These formal legal protections contrast with administrative protections which have the effect of strengthening independence. These kinds of protection differ depending on whether the audit is procured by the council or not. In countries like the Netherlands, where the audit is procured, rotation is a protection and the Dutch rotate auditors in local government every seven years. However, in countries which have local audit offices, different administrative mechanisms must be used: mostly focussed on the individual who actually performs the audit. In Brazil, for example, the auditor has an unlimited tenure (until compulsory retirement at 75), must be experienced in public finance and be aged between 35 and 65 before they can be appointed. In Switzerland, in some cantons, the local audit committee or commission must have one member who is a financially qualified person. In England, although local authorities procure their audits themselves, they now mainly do so through a central commissioning agency which means that the risks to independence of procurement have not arisen. In China, the central National Audit Office sets out its expectations of what audit should be which define the role of audit within Chinese local government and include independence. These administrative protections ensure that the audit is competently and professionally carried out.

Another way to achieve that objective is to place control of the audit directly in the hands of the party on behalf of whom the audit is done- described as "supervisory powers" in the table above. This is the purpose of the "officer of the house" legislation in Westminster jurisdictions- but rather than a legal

status, it can be done through appointment clauses. Hence, in our sample, the auditor is often appointed by the council to whom they report. In China, the auditor can only be replaced if the replacement is authorised by a higher auditor. In Germany, the council can replace its head of the local audit office should it require. In the Netherlands and Portugal, the local council selects the auditor. In Sweden and Spain, the auditors audit for a political community so the political parties share the nomination of the auditors. These kinds of protection identify the interests of the principle with those of the auditor and ensure this identification through bringing together these two groups.

Many of the papers in this volume point to limitations on audit independence at the local level. Two sources of limitation have been identified. One area of concern is that auditors are too close to the executive or to the political establishment. In Brazil, despite the rules on appointment, there are concerns that former politicians are often appointed as auditors and they are normally loyal to the interest groups who put them in place. In Germany, local audits can be influenced by local politicians. The second limitation on independence arises in countries where audit has been contracted out to private companies. In the Netherlands, there has been a trend of large audit firms leaving the market for local government audit, with Deloitte and PWC as the only two of the big four still involved. In England, similarly, the competitive pressure in the sector is much less than was expected in 2014 when local authorities were invited to procure their audits.

#### 16.4 Audit Scope and Coverage

There are several different dimensions of audit scope and coverage referred to in the papers. However, they largely focus on two different issues. Firstly, there is the issue of what bodies the auditor covers. Largely in this volume we examine auditors who cover local government- however as the narrative section sets out there is some variety in this depending on the country. Secondly, there is the issue of what auditing itself consists of: there are three main types of auditing described in the papers. These are:

- Compliance audit: checking the authorities' spending is compliant with regulations, laws and budgets
- Financial audit: providing an opinion on a set of published financial statements for the entity
- Performance audit: providing an opinion or analysis of the performance of the local entity

The scope of audit in the different countries is set out in Table 3.

Table 3 Audit Scope

Country	Type of Audit Provided		
	Compliance	Financial	Performance
Australia		✓	✓
Austria		✓	✓
Brazil	✓		
China	✓	✓	✓
England		✓	✓
France	✓	✓	✓
Germany	✓	✓	
Italy	✓	✓	
Netherlands	✓	✓	✓
New Zealand		✓	
Portugal		✓	
Spain	✓	✓	✓
Sweden		✓	
Switzerland	✓	✓	✓

As Table 3 demonstrates, in most countries, some form of compliance, financial or performance audit is carried out. There are exceptions: in Westminster jurisdictions, such as England, Australia and New Zealand, there is very little compliance audit with a focus on either financial audit or performance audit. In Germany, although some states do some performance auditing, it is financial audit and compliance audit which dominate. However, a simple checklist of types of audit though does not really explain the complexity of what is happening. Audit has many purposes which demand different kinds of work from the auditor. In New Zealand, outward accountability is what matters: consequently, the Auditor General’s main focus is on financial reporting (87% of their work) and public sector entities are required to produce detailed statements about performance including quantitative measures about the achievement of objectives. These subtle differences cannot really be captured by a simple distinction between performance, compliance and financial audit. In several jurisdictions, if performance audit exists- it is limited. For example, in England, since the 2014 reforms, performance audit solely consists of an audited statement about value for money systems within the local authority and national studies conducted by the National Audit Office (the SAI). Chinese performance audit is developing with real time audit that looks at the effective implementation of policy developing since 2015. Furthermore, often different types of audit are performed by different organisations- in the Netherlands, auditors carry out financial audits whereas municipal courts of audit carry out performance audits.

The other way of viewing audit is to examine the span of audit- what audit covers. Here, again, although there is consistency, there is also variety. One important point to note is that the different countries in this sample structure their local government differently. There are more complexities however in the case of local government audit around the boundary of government. In Germany, contracting is a key issue for audit in some states for example North-Rhine Westphalia and Lower Saxony. In Austria, some Regional Audit Institutions conduct audits of decentralised organisations in which the state has 25% of control (and in other regions, in which the state has 50% of control). This variety in audit span can be seen not just in the organisations audited but also the point at which audit takes place in a project lifecycle. In Austria, some regions have the ability to audit projects before they are finished. This variety in the organisations audited and the point at which audit takes place reflect the underlying discontinuities about what audit is designed to do.

## 16.5 Inspection

Ferry and Ahrens (2021) suggested inspection is “frequently regarded as an extension of audit into the area of performance”. Whilst none of the countries that were investigated in this book actually bring together audit and inspection, many of them do provide opportunities for the analysis of government performance. Table 4 sets out the different national experiences with analysing performance documented in the chapters.

Table 4 Inspection and Performance Reporting

Country	Integrates inspection into audit	Assessment of local government performance
Australia	No	Performance Audit
Austria	No	Performance Audit
Brazil	No	Indexes of performance produced from auditee returns
China	No	Real time audit includes some assessment of performance
England	No	Limited performance audit
France	No	Performance Audit
Germany	No	No

Italy	No	Independent Evaluation Office
Netherlands	No	Performance Audit
New Zealand	No	Mandatory Performance Statistics, specific arrangements for Auckland
Portugal	No	No
Spain	No	Nationally set performance metrics
Sweden	No	No
Switzerland	No	Performance Audit

In most of the countries included in this survey, financial or compliance audit remains the core of what local auditors do. In some countries such as England, audit has retreated from inspection of performance back to a purer financial activity. In most countries, in this group, audit of performance is conducted either from a performance audit or through the publication of data sets. Performance audits can be limited in the way that they assess actual performance: in Switzerland, for example, performance audit consists largely of administrative inspections through walk-throughs of procedures. Performance audit may be more expansive: in Victoria, in Australia, the auditors are required to examine diversity and accessibility as part of their work. The term therefore covers a multitude of practices and more research is needed into exactly how far performance audit covers the performance of local government and whether it can in some circumstances, perform the role that Ferry and Ahrens (2021) propose for inspection. In the case of the publication of data, there are similar issues. Several countries publish performance data about their public services: Spain, Brazil and New Zealand do this for local government in our sample. However, whilst data might be published, it may not be audited- this is the case in Germany for example. Even if the data is audited, it might only be constructed, as in Brazil, out of the reported data from auditees. Conceptually analysis of performance might not be seen as audit- for example, in Italy, performance data is assessed by independent evaluation offices- and the auditor just monitors the process. There are further risks to a purely data driven approach to monitoring performance. As Etzioni (2014) argued citizens both lack the time and resources to analyse information in the way that advocates of transparency suggest they would. Consequently, transparent reporting may not adequately meet the requirement that accountability should embrace performance as well as finance.

## 16.6 Further thoughts

Our examination of local audit arrangements across these fifteen countries show both continuities and discontinuities. The institutional design of each country profoundly effects the way that audit is organised in them: federal countries tend to have federalised their audit systems whilst strongly centralised countries like France have centralised audit systems. Protections of independence also vary nationally, with some countries such as New Zealand or Austria relying on constitutional or legal protections, whereas others such as the Netherlands rely upon administrative controls on the way that audit is procured. The continuities of perspective are obvious: in Austria and the Netherlands, changes to audit were catalysed by the introduction of new public management perspectives. This is in line with contemporary literature that emphasizes the international role of an auditing community in structuring what the public sector profession is (Free et al., 2020). The post financial crisis politics of austerity has also driven change in the audit of local government. In England, austerity is a vital context to interpret the changes of 2014 and their effects. In France, Italy and Portugal, the politics of austerity at a European level have driven changes to the way that local government finance and hence audit are seen. Not all countries have seen both trends impact on them: whereas Chinese auditing appears to have been driven by the new public management intellectual consensus, it owes a lot less

to the politics of austerity. Whereas there has been an international audit explosion (Power, 1997), in some jurisdictions like England, audit has been on the retreat.

However, these chapters also leave questions to be answered by future research. The first significant issue that the chapters raise lies in the area of how auditors assess the performance of government. As we have discussed above, in most audit offices performance becomes purely the subject of performance audit. England previously had an inspection regime but with the abolition of the Audit Commission in 2014, it too now has a performance audit regime. But performance audit and data publication can mean different things: in this volume, the authors questioned the presence of performance audit but did not try and assess the quality of performance audit across all the different jurisdictions but this could be an area for future comparative research to identify which kinds of performance audit or data publication can fulfil the inspection function described by Ferry and Ahrens (2021). As the COVID-19 pandemic has shown, the advent of new data both opens up new ways for citizens to be governed and governments to be held to account (Ferry et al., 2021).

Secondly, the chapters are largely silent about the purpose of local government auditing. It has often been asserted that central government public sector audit defends liberty in the name of democracy (Pallot, 2003; Funnell, 2007; Ferry and Midgley, 2021). Similar assertions have been made about local public audit too (Ferry and Murphy, 2017). However, it is not clear that such expectations are fulfilled through local government audit as currently designed. There are very few comments across the chapters about how successful audit is in maintaining local democracy and improving local accountability. The New Zealand example stands alone in demonstrating a link between the two- but in both Brazil and England, the lack of a link is described as a limitation on the effectiveness of audit. As Ferry et al. (2021a) argued, accounting information often requires explanation before it can be used for democratic accountability- further research could consider how this gap could be bridged at a local level.

This has a further implication- despite the differences between the content of local audit within many states- there is no analysis in these chapters about whether this creates unequal citizenship within those states. If audit is linked to democracy and democratic citizenship, then we might expect that different auditing regimes have differential impacts on the content of citizenship. In some countries, such as Spain, audit is a constitutional activity set out within the constitution- whereas in others such as the UK, audit is subject to legislation which can be altered at the will of each incoming government. Furthermore, only one of the countries in this sample is not a democracy (China)- and it would be useful for further work to assess the differing roles of audit in different constitutional settings. What difference this makes is another outstanding question in the study of comparative audits across countries. Just as in central government, the question of how audit transcends its roots as a professional activity, to become a democratic one remains outstanding in much of our sample.

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