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# Follow-up Audit as an Accountability Mechanism of Public Sector Performance Auditing

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## Abstract

Public sector performance auditing poses significant role in appraising the accountability of government through monitoring the operation of public power, especially how public resources are being used. In parallel, follow-up audit appears to be important to recheck on the responsiveness of auditee towards audit recommendation on various issues raised pertaining to improper use of public fund. Lack of audit follow-up may cause a problem to measure the real value of performance audit and expected results of audit recommendation. Accountability mechanism pertaining to follow up audit in public sector performance audit perspective need to be enforced not by sole actor but various actors. Accountability mechanism regarded as either the right to argument or questions information conveyed and information flow pertaining to unresolved performance audit issues by various actors for settlement. During the follow-up audit, a free flow of information by all those actors enable them to voice their concern or stand to ensure performance audit issues are well taken care in terms of corrective as well as preventive action. In other words, it implies how auditors with the influence of Parliament, PAC, Media and citizen or general public participating during the follow-up audit and consequently become one of the accountability mechanism of public sector performance auditing. Since it involves various actors within the accountability circle, this study is anticipated to provide empirical facts on the influence of each actors in the current practice of follow-up audit as perceived by the SAI auditors based on the developed conceptual framework.

**Keywords:** Follow-up audit, performance auditing, accountability mechanism

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## 1. INTRODUCTION

The underlying reason and rationale of accountability are undeniable in fulfilling the demand for better public services, prompt responsiveness of public administration, and more citizens' participation. In particular, public accountability appears important for public sector performance enhancement as well as to increase public trust on government. In this context, Supreme Audit Institution (SAI) poses key challenges to report for performance of government that public resources are being used wisely. SAI is a domestic agency responsible for auditing and checking on government income and expenditure (INTOSAI, 2004, p. 33). As an accountable organization, SAI works on performance audit is progressively anticipated to contribute to the broader policy discussions; deliver policy recommendation and offer guidance to governments about how public administration can improve its work performance (Reichborn-Kjennerud, 2015; Funkhouser 2011; Lonsdale & Bechberger 2011). Thus, the utmost way to measure performance of government agencies activities is through performance audit accomplish by the SAI. As stipulated in Article 106 of the Constitution and in Section 1 of the revised Audit Act 1972 (original 1957) the Auditor General (AG) that represent SAI of Malaysia is responsible for ensuring accountability of public sector administration in managing public fund through their performance auditing activity. Nevertheless,

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perceived impact of performance auditing are under question mark in terms of its real value due to lack of audit recommendation implementation. Repetitive performance audit issues reported and tabled in Parliament seem lacking corrective as well as preventive action. Amongst the repetitive issues are improper payment, unjustified delays in project completion, unreasonable cost overruns, unacceptable quality of work, unnecessary equipment and supplies delays, unwanted white elephants project, unachievable intended objectives and unfortunate maintenance of government facilities (Said, Alam & Aziz, 2015; NAD, 2013, 2014). As a result of that, all these issues likely have an influence in destroying public confidence towards government.

Therefore, public sector auditors particularly the SAI's auditors has crucial role to embrace the impact of their performance audit finding and recommendation. SAIs auditors have a key position in the accountability process (Justesen & Skærbek, 2010) as they provide status of performance information to parliament; overseeing ministries and general public on how the government agencies uses public funds. Numbers of audit recommendation is not the matter of concern rather its implementation are the ultimate goal. Auditors of SAI trails the auditees' responsiveness towards audit recommendation through follow up audit (Mzenzi & Gaspar, 2015; Morin, 2014; Irawan, 2014; Aikins, 2012). Here, there is need for an effective follow up audit process from the perspective of SAI auditors.

On such a continuum, this paper then is structured as follows. Following section, highlights brief overview of background and followed by the key features of this study which include literature review on follow-up audit; performance auditing and accountability mechanism. Section three discusses the conceptual models as well as execution of hypotheses. Subsequently, followed by section four that cover the research methodology. Finally, a key conclusion is provided.

## **2. LITERATURE REVIEW**

### **2.1. Background**

There are various organizations that regulate external audit and the most prominent being are the International Organization of Supreme Audit Institutions (INTOSAI) which function as an umbrella body for the external government audit community. Under the initiative of Asian Organization of Supreme Audit Institutions (ASOSAI), public auditing is the field where Supreme Audit Institution (SAI) all over the Asian country share and exchange ideas. In particular, a manual has been developed by the Pacific Association of Supreme Audit Institutions (PASAI) as a guidance and support for Supreme Audit Institutions (SAIs) to use when undertaking performance audit activity in their respective jurisdictions. Whereas, INTOSAI initiate the development of International Standard for Supreme Audit Institution (ISSAI), an internationally best practice auditing standard and guidance for SAI's in performing auditing task. As described in INTOSAI (2011), ISSAI provide standard, guidelines, guidance and related documents to incorporate the requirements of quality control. ISSAI is based on the principle to gain quality, credibility and professionalism in SAI's auditing activity. The aims are to earn trust of citizen and reduce auditor's risk; improve institutional framework; stronger audit mandate and structure as well as strengthen the process for audit work (INTOSAI, 2011). In particular, priority of follow-up been highlighted as part of the SAI's overall audit strategy (ISSAI 3000. 5.5). INTOSAI Guidelines, ISSAI 3000- 3001 pointed out that *"a follow-up audit will facilitate towards effective implementation of report recommendations as well as deliver feedback to the SAI, the legislature and the government on performance audit effectiveness"* (ISSAI 3000, 5.5). Meaning that, most of the SAI's follow ISSAI which is stipulated standard by INTOSAI in undertaking follow-up audit.

### **2.2 Follow-up audit**

ISSAI 3000 termed the objectives of follow-up audit are basically to help augment the effectiveness of audit report; assisting legislature; evaluating the SAI performance and provide input the enhancement policy with regards to performance audit. For example, in the performance audit context, principally, the audit stage comprises five phases which are planning, preparation, execution, reporting, and follow-up. In particular, the follow-up audit also provide feedback to the SAI as well as the government on performance audit effectiveness and which in turn help in embracing public sector management (PASAI, 2011). However, it must be made known, that the outcomes of follow-up initiatives have not been uniformly positive, as problems have often been experienced. For instance, some academic literature highlight difficulties or problem associated to follow-up audit in terms of availability of resources such as additional timing; cost and staff will continuously be an issues (Irawan, 2014; Arts & Nooteboom's, 1999). In addition to that, management deficiency in terms of planning the follow-up audit; guidance; auditees' resistance or even the lack of auditors' effort may likely hinder the follow-up audit uptake.

Additionally, expectations of the auditors have been made based on some quantitative studies, for instance Loke, Ismail and Fatima (2016) examine attitudes of public sector auditor towards performance audit effectiveness which then slightly convey the call to relook for follow-up audit in the future research. There are also studies examine the relevant of various actor involvement in performance audit and highlight the important of their influence in the follow-up audit (Irawan, 2014). Recently, Setyanigrum et al., (2016) used a single determinant which is auditor quality that have a positive relationship on follow-up on audit recommendation implementation. Thus, based on those notion follow-up audit most likely appear to be one of the accountability mechanism to embrace the value and impact of performance audit.

### 2.3. Performance Auditing

In the context of performance auditing, both Morin (2014) and Reichborn-Kjennerud (2013) agree on the relationship between performance auditing and accountability. Although there seem to be major deficiencies with regards to quality of accountability achieved during performance audits (Morin, 2014), the contribution of performance auditing pertaining to accountability is undeniable and still deficient (Reichborn-Kjennerud, 2013). For instance, the author points out that there is lack of empirical evidence in relation to performance audit impact towards effectiveness, efficiency and accountability of public sector. Further from questionnaire survey the author revealed that there was no correlation between the perceived usefulness from ministerial point of view towards performance audit report and accountability dimensions. However, in the subsequent year, using both document analysis and interviews based on four case study, the author then found out that accountability pressure exhibit different reaction from auditees, and most likely contributes towards performance auditing impact (Reichborn-Kjennerud, 2014).

Therefore, an accountability mechanism will most likely contribute on auditors' performance auditing impact and this is a kind of mechanism that could be used in forcing the concern organization to implement changes (Justesen & Skærbek, 2010; Reichborn-Kjennerud & Johnsen, 2011). Sharing the similar thought is Funkhouser (2011), who echoed that accountability mechanisms can improve performance. In the same vein, Loke, Ismail and Fatima (2016) most recently, through their empirical study revealed that performance audit increases public accountability, economy, and effectiveness and efficiency of public sector entities. Beforehand, Lonsdale (2008) has demonstrated that performance audit has potential to reinforce the accountability relationship between public sector entities and general public. In spite of these variances in performance audit impact and the role of accountability, this study aims to explore and argue that there is most likely positive impact than in contrary.

### 2.4. Accountability

Accountability is regarded as a social bonding, where interaction between actor and some significant other take place when actor feels accountable to clarify and to justify his or her undertaking (Day & Klein 1987, Romzek & Dubnick 1998). Significant others according to Boven (2005) is accountability forum which usually passes judgment on the behavior of the actor. Correspondingly, recent literature also accepts the old definition which defines accountability as a responsibility of an actor to describe and rationalise its undertakings to a significant other (Schillemans & Bovens, 2011).

Whereas, most recent literature by Alwardat, Benamraoui and Rieple (2016) and Funnell, Wade and Jupe (2016) further highlight the concept of accountability from the earlier idea of Normanton (1966) to support their empirical evidence with regards to significant role conflict in performance auditing process and its credibility. This longstanding author, Normanton's (1966, p. vii) in his book, *"The Accountability and Audit of Government"* highlighted the relationship between audit and accountability as follows: *"without audit, no accountability, without accountability, no control, and if there is no control, where is the seat of power?"* Indirectly, it grasps one understanding that audit is about accountability. Thus, a key feature in public sector surroundings is the notion of accountability which should be exercised to some extent by all parties involved and in the context of this study are the SAI auditor's (forum) as well as influence from other actors (significant other). Fairly extensive previous and recent literature have empirically highlights the underlying link between auditing and accountability within the public sector audit (Eckersley, Ferry & Zakaria, 2013; Alwardat, 2014; Irawan, 2014; Ellwood, 2014; Ferry & Eckersley, 2015). For example, Mzenzi and Gaspar (2015), in their recent content analysis study also, point out that *"though auditing and accountability are invoked in some of these studies, the relationship between them, and more specifically, about how external auditing (public sector audit) contributes to accountability, has not been clearly established (p.682)"*. This further justify the current study aim.

Thus, in an effort to develop an effective follow-up audit in SAI organization, the definition and concept of accountability is used to identify the various actors' involvement and consequently explore the nature of that relationships from the SAI's auditors' perspectives.

## 2.5. Accountability mechanism

Recent academic debates with regards to accountability being guided towards societal correlation between an actor and a forum (Bovens, 2010). The author further distinguishes concepts of accountability into two. The former is accountability as a virtue based on normative concept and it is a set of standards used to evaluate the real and active conduct of public actors. Meaning that, accountability as virtue is an ideal concept that commonly expected, should be exercised or poses by the public actor. Whereas the latter, accountability as a mechanism is used in a specific context which merely seen as an institutional procedure in which an actor can be held to account by a forum with the influence of some significant other. For that reason, this study specifically employs accountability mechanism as narrow perspective to explore the practice of follow-up audit with regards performance auditing.

Likewise, accountability mechanism is not about standard, procedural or compliance to evaluate the behaviour of public actor. Rather, it is to explain and justify the concern conduct to a significant other (Schillemans & Bovens, 2011). According to this author, rather than viewing it as an instrument, the focus is more on particular meaning, placed on the relationships and institutional measures. Based on this particular or narrow perspective, actors and/or organizations are held accountable by another individual or institutional setting (Day & Klein 1987; Romzek & Dubnick 1998; Pollit 2003) which in the study context is SAI of Malaysia. This could be further supported by Jarvis (2015, p.451) on his recent claim. The author stressed out that, by treating accountability as a mechanism, an empirical study will allows researcher to develop a picture of accountable actors. Given the option, this study used concept of accountability as a mechanism to further study on follow up audit pertaining public sector performance audit. In this context, the concepts of mechanism in Bovens' classification support the possibility of using mechanism as a way of demonstrating accountability. Visualization of forum actor relationship as an accountability mechanism for follow-up audit are as depicted in Figure 1.

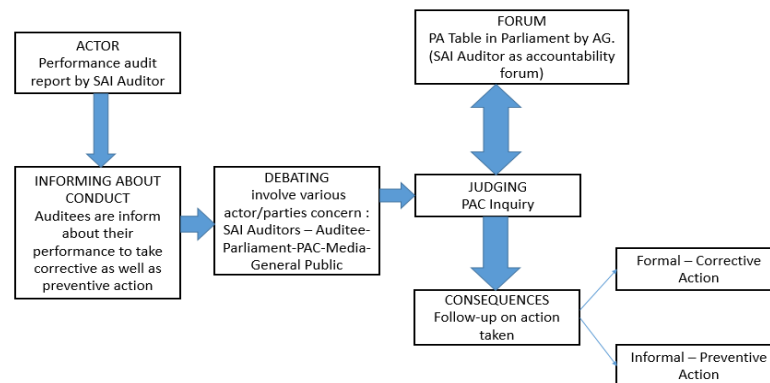


Figure 1: Visualization of forum actor interaction in follow-up audit.

## 2.6. Accountability mechanism in performance audit

Performance audit evolves after the execution of organisational reform (Alwardat, 2014). In particular, the author highlights that fundamental changes with regards to accountability mechanisms as well as in public sector auditors' roles occur as a result of this reform. In the Malaysian context, Supreme Audit Institutions (SAI) are set up based on the constitutional and legal framework and help legislature in accountability enforcement. The ultimate role of SAI is to monitor and examine the activities of government agencies through its performance audit from three common angle namely efficiency, economy and effective. Consequently, audit finding as well as audit recommendation are reported for the government agencies to take corrective as well as preventive action which in turn most likely aim for performance improvement.

## 2.7. Accountability Mechanism of effective follow-up audit

Accountability here can be summarized as responsibility by influential actors (significant other) that should collaborate with SAI auditors in order to achieve better consequences of performance. In this aspect, accountability in follow-up audit refers to SAI as public organization need to develop collective accountability circle through a forum. To sustain the efficiency of accountability mechanism, what is regarded importance is

coordination (Papadopoulos, 2008). In this sense, the accountability mechanism of follow-up audit pertaining to public sector performance audit are viewed from horizontal accountability aspect. The aimed is to come out with collaborative initiative between all those actors involved to achieve effectiveness in follow-up audit of performance audit issues. The focus is not on vertical accountability dominated by principle-agent relation but more specific on the nature of responsibility of each actor (Boven, 2006). Here in Figure 2 and 3, the relevance of horizontal accountability (Day & Klein 1987; Scott 2000; Mulgan 2003) are justified visually to represent the undertaking of follow-up audit. Based on those notion, horizontal accountability arrangements is presented diagrammatically in Figure 2 and 3 which address the relationship, both internal and external among the actors involved (Schillemans, 2008). The visualization of horizontal accountability framework presented here (see Figure 2 & 3) can help to promote a systematic conceptualization of follow-up audit pertaining to public sector performance audit.

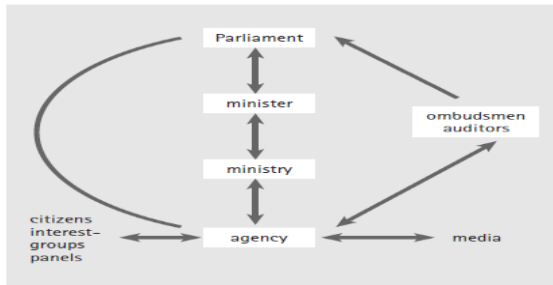


Figure 2: Horizontal accountability in the context of public accountability. Adopted from Boven (2005, p.197)

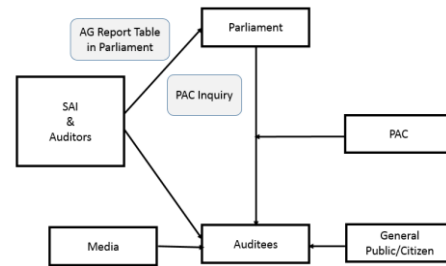


Figure 3: Visualization of Horizontal accountability for Collaborative Follow-up Audit Framework

### 3. DISCUSSION AND CONCEPTUAL FRAMEWORK

Debatable arguments surrounding the sphere of auditors-auditees relationship (Alwardat, 2014; Nalewaik, 2013; Aikins, 2012; Funnell & Wade, 2012) concerning unresolved performance audit issues due to lack of audit recommendations implementation are still going on (Morin, 2014). These are due to repetitive performance audit issues reported and tabled in Parliament seem lacking in terms of corrective as well as preventive action. Amongst the repetitive issues are improper payment, unjustified delays in project completion, unreasonable cost overruns, unacceptable quality of work, unnecessary equipment and supplies delays, unwanted white elephants project, unachievable intended objectives and unfortunate maintenance of government facilities (Said et al., 2015; NAD, 2013, 2014). As a result of that, all these issues likely have influence in destroying public confidence towards government. A particular concern is, without effective follow-up audit, all those repetitive issues will continuously be reported without the essence of effort to resolve the issues or lack of lesson learnt amongst the actors involved. According to Aikins (2012), practically, implementation of audit recommendation resulted from effective follow-up audit. The author further emphasized that auditors' work in tracing and checking those recommendations will help to enhance public accountability in the public management process (p.217). Meaning that, accountability may raise the significance mechanism of public sector through the performance audit activity and in particular the follow-up audit. Follow-up audit as an accountability mechanism, therefore, in the context of this study, is viewed from the perspective of SAI auditors that need collaborative responsibility by various actors for settlement. In other words, it implies how auditees, parliament, PAC, media and public in general collaborate and consequently trigger the sense of accountability. Thus, as an accountable actor, the SAI auditors will likely appreciate a free flow of information by all those actors that voice their concern or stand to ensure performance audit issues are well taken care.

Furthermore, public sector auditors by profession to a large extent, reinforced by external stakeholders in which lead the SAI auditor to work closely with influence of external actor. For instance, recently, Irawan and Janet (2014) suggested that besides PAC, the influence exerted by media, some other relevant professional bodies and key government agency not to be ignored. According to these author, their role is important to criticize the result of performance auditing work which is sometimes not been well accepted by auditees in terms of audit recommendation implementation. On the other hand, the authors also stressed out that the importance of citizens' involvement. In this aspect, citizen or general public at large are allowed to seek audits of institutions and programs that they regard as important requiring inquiry.

### 3.1 Influence of Parliament

Auditors, consultants, Parliament and members of Public Account Committee (PAC) are positive about the performance audit whom vested interest on its practice (Funnell & Wade, 2012). These authors argued that the most critical external stakeholder in determining the nature and role of performance audit is the Parliament represented by the elected political parties. Performance audit report used by the Parliament and its relevant commission to hold the ministries to account for unsatisfactory performance, management practice or lack of compliance in its policy area (Læg Reid, 2013). Since the audited organization faces formal pressures from an organization upon which they are dependent such as Parliament, the impact of the SAI's reports can differ depending on Parliament influences (Reichborn-Kjennerud, 2014). According to this author, ministry tend to be unresponsive toward audit recommendation implementation as result of disagreement to the report's audit findings and recommendation. Nevertheless, in spite of this unresponsiveness exerted by audited agencies at the ministerial level, decisions and influence of Parliament can make the ministry to comply. All three authors (Reichborn-Kjennerud, 2014; Talbot & Wiggan, 2010; Nath, 2010), agreed that influence of Parliament has an impact in dealing with unresolved performance audit issues during the follow-up audit. Hence, the following hypothesis is anticipated:

*H1: As a results of Parliament influence on the unresolved performance audit issues, the more the auditors feel accountable to perform follow-up audit, so as to achieve its effectiveness.*

### 3.2. Influence of Public Account Committee (PAC)

Relationship between performance auditing and various public sector stakeholder such as PAC; Parliament and media claimed to be an important indication on how public and political interference affect the performance audit (Nath, 2010). According to Bringselius (2014), without assigning Public Accounts Committee (PAC) to respond or even to receive the SAI reports, it will most likely led to a situation where many reports were not well addresses without action or even debated. This author finding indicate as if, without the existence of PAC the audit recommendation was not follow up and left unattended. Besides that the distresses raised and recommendations in the AG report should be follow up by public servant before the commission to a take charge (Brown, 2011). This resulted on this following hypothesis.

*H2: The greater the influence from the PAC on unresolved performance audit issues, the more the auditors feel accountable that follow-up audit should be undertaken so as to achieve its effectiveness.*

### 3.3. Influence of Media

Media can be one of the source of influence that carry weight on follow-up audit process as a key channel and by putting pressure on auditees to speed of their corrective action. Media, in spite of its ultimate role to keep stakeholder informed about the unresolved issues as well as audit recommendation may also put pressure on it to speed up remedy action. Technology has transformed the structure of the public sector. The mass media have dominated the public sector for a century and has the ability to influence public opinion (Pehe, 2012). Media made it possible as a communication channel to transmit messages directly to the people (Miguel & Rostam, 2013) and this often involves efforts to manipulate the public with the help of sensitive issues. On such a continuum, the following hypothesis is anticipated.

*H3: The more debate in the media on performance audit issues, the more the auditors will feel accountable that follow-up audit should be undertaken so as to achieve its effectiveness.*

### 3.4. Influence of General Public (Citizens)

Recently, Irawan and Janet (2014) suggested that general public could play an important role by criticizing the result of performance auditing work as they could control the performance auditing activities by expressing their voice about the poor government performance. On the other hand, citizens or their representatives in particular, can observe how society's resources been used (Shaoul et al., 2012). Likewise, citizens have valid privileges regarding the operations of public organizations (Yapa, 2014). The civil service particularly those at the lower level with diverse political stand should sensitive of the ultimate goal of civil service that supposed to be independent. Moreover, involvement of the general public by creating pressure for sound utilization of public fund by audited organization could enhanced the effectiveness of audit findings recommendation (Bhandari, 2014). Therefore, the following hypothesis is anticipated that

**H4:** *The more the general public/citizen become interested on performance audit issues, the more the auditors will feel accountable that follow-up audit should be undertaken so as to achieve its effectiveness.*

Based on the above discussion, a conceptual framework (see Figure 4) depicting the contributing actors that most likely will exert influence towards effective follow-up audit are as follows:

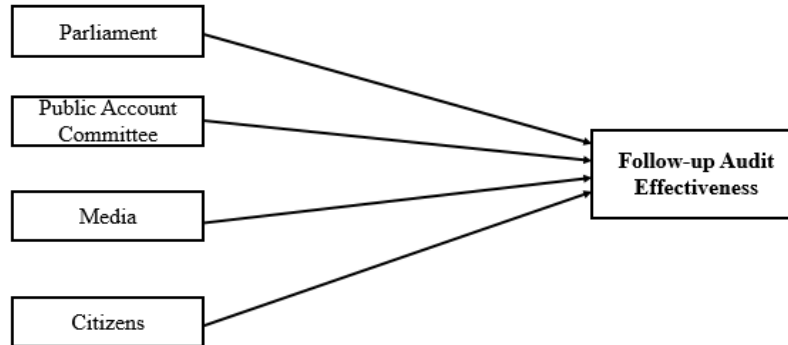


Figure 4: Proposed Conceptual Framework for Effective follow-up audit

#### 4. RESEARCH METHOD

In this study, quantitative method using survey questionnaire will be employed for further empirical testing and finding. The purpose of using the quantitative method in this research is to predict and explain the phenomena through focused collection of statistical data. Creswell (2009) has given a very concise definition of quantitative research, which is “*a type of research that explains phenomena by collecting statistical data and further analysed it using mathematically based methods*”. Moreover, some recent literatures has also claimed that empirical studies of the AG’s impact through performance audits are still very rare and should be further explored (Reichborn-Kjennerud, 2015; Morin 2014; Van Looche & Put, 2011). Most importantly, Morin (2014) suggests to proceed with more empirical evidence which will be useful for performance auditors in other jurisdictions in enhancing the efficacy of their work. This justify the current study purpose to produce empirical evidence in relation to this field from the SAI auditor’s perspectives. Thus, in this study context, the relationship between external factor such as Parliament; PAC; media and general public in follow-up audit is expected to provide an empirical evidence on the significant of those external actor influence in explaining the follow-up audit effectiveness. Likewise, the results of the relationship test will be used to identify the most appropriate actor that have significant and prevalent influence on unresolved performance audit issues during the follow-up audit as perceived by the SAI’s auditors.

Public sector auditors whom are best known as government auditors or particularly SAI auditors are the main respondent of this study. This type of auditor are different from their other counterpart, the Internal Auditor at the government agencies level. Thus, for the quantitative approach, the database of auditors from National Audit Department of Malaysia (MNAD) will be used as the designated population. Subsequently, this population will be alienated by removing all the administrative staff. Consequently, for sample selection, the auditors population will be stratified according to group namely management and professional group and the remaining will be support groups. The samples will be drawn from both of these groups.

#### 5. CONCLUSION

This conceptual paper sets out to examine all those actors or parties namely SAI auditors (audit and reporting); auditees (managing and taking action); parliament (hierarchy of relationships of control); PAC (public inquiry); media (highlighting significant issues) and general public (concern and demand for answers) can constitute as effective factors of accountability mechanism for effective follow-up audit framework. This approach facilitates identification of a variety of existing actors and highlighting the importance of each of their influence in making the follow-up audit more meaningful and useful for public sector performance improvement. Consequently, it will likely improve public sector image and expectation of the people toward government. Accountability lens are used to discover those actors that dominantly should play their accountable role and has the ability to trigger other to take action can be acknowledged. Based on that notion, the ultimate intention is to develop a framework for measuring the accountability of collaborative forms of relationship, and to apply this framework in empirical studies of effective follow-up audit practices.

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