

PUBLIC AUDIT SYSTEMS: FROM TRENDS TO CHOICES

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Public audit systems are growing, leading to questions as to their cost-effectiveness. In this paper, we take stock of academic controversies surrounding this issue. According to Abbott's framework, we classify this literature along two dimensions: the degree of formalization of the audit process and the degree of abstraction of the audit definition. We found six literature streams which appraise the situation differently, leading to different solutions. To conclude, new research avenues are identified. Ultimately, we invite to think of public audit in terms of alternatives having each different costs and benefits.

EVOLUTION OF PUBLIC AUDIT SYSTEMS: INTERNATIONAL TRENDS

Public audit systems undergo rapid changes that have led to questions as to their cost-effectiveness. In order to better address these questions, we rely on Abbott's framework (1988) to throw a new light on these evolutions.

Traditional public audit system

In a Parliamentary system, the Parliament votes laws, under which budgetary laws, that are executed by the government.

The latter is accountable to Parliament. This means that the government has the obligation to explain and justify its conduct, that the Parliament can ask questions and pass judgment, and that the government may face consequences (Bovens, 2006), such as being dismissed on a vote of confidence.

In order to fulfill this mission, the Parliament may obtain from an expert an independent evaluation of the accuracy and adequacy of government's accounts (White & Hollingsworth, 1999). This role of expert is fulfilled by a Supreme Auditing Institution (SAI).

SAI's mandate, mirroring Parliament's powers, entails compliance and financial audits. These audits express a professional opinion as to the conformity of government's accounts with the laws voted by Parliament. The audit reports are transmitted to Parliament.

The government devises mechanisms ensuring compliance with Parliament's rules.

Until recently there is thus not strictly speaking such a thing as a public audit system or a control pyramid: there is a legislative or external auditor, and government administration. There is no particular interaction between these two levels of 'auditing', and each specializes on its own 'clientele'.

New public audit system

In its ideal-typical version, the New Public Management (NPM) radically transforms this traditional 'public audit system': new players enter the field, new activities are performed, and the whole gets a critical mass and an existence on its own.

During the 80's a new administrative doctrine emerges in the OECD countries that soon gets the label of NPM (Hood, 1991). Among other things, the NPM programme relies on the audit technology (Rose & Miller, 1992) to reconcile autonomy and accountability of government: since politicians remain responsible for their administrations, new control mechanisms are devised to replace ex ante regulation.

Indeed, different NPM principles lead, when purely applied, to a new public audit system (Put & Bouckaert, 2010; Sanders & Troupin, 2009).

First, NPM advocates the disaggregation of monolithic ministries into smaller units organized along production lines and led by more autonomous managers. Under NPM, the accountability of these managers is to be realized through performance standards, preferably formulated in quantitative terms (Hood, 1991). These principles, by allowing the ministers to focus on strategic issues and the manager on operational ones, ask from a new player to ensure the accountability of the manager to the government (White & Hollingsworth, 1999). This new player is the internal auditor, which makes its appearance in the public audit system, next to the external auditor and government administration.

Second, NPM calls for the replacement of input rowing by output steering (Hood, 1991; Osborne & Gaebler, 1992). From sufficient conditions, laws and regulations become under NPM simple necessary conditions for government performance, to be supplemented by a focus on results. Therefore the mandate of public auditors is enlarged to performance audits, next to financial and compliance audits. Performance audit embraces economy, efficiency and effectiveness of government operations (Pollitt et al., 1999).

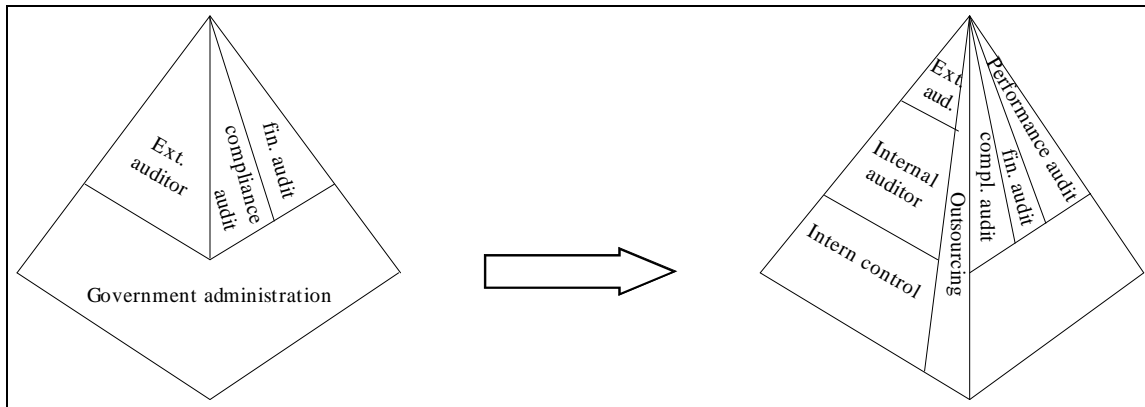
Third, following the NPM calls for greater competition in the public sector (Hood, 1991), a significant part of controlling activities are being outsourced to private sector partners, as has happened in New-Zealand for instance (English, 2003).

Finally, NPM welcomes the introduction of private sector techniques inside the public sector (Hood, 1991). The term of internal control only appears when private-sector frameworks such as COSO-ERM make their entrance inside the public system of audit.

Policy issues and research questions

These evolutions from the traditional toward the 'new' public audit system are summarized on the following picture:

- next to compliance and financial audits, public auditors are entrusted with a new activity, the conduct of *performance audits*;
- the area of government administration gets a new name, and becomes '*internal control*';
- a new player appears between the external auditor and the 'internal control', the *internal auditor*; and
- a variable part of these activities is *delegated to private sector partners*.



**Figure 1 – The evolution of the audit system: international trends
(inspired from Bouckaert & Put, 2010)**

Van Looke & Put (2010) have reviewed empirical studies on the impact of performance audit. In several cases evidence has been found that performance audits have led to the implementation of recommendations. These studies also identify factors facilitating this impact, such as a relationship between auditors and auditee, characteristics of the audit results, role of third parties, etc... (Van Looke & Put, 2010: 16-7). Nevertheless methodological and conceptual limitations of the reviewed studies prevent the generalization of their rather positive conclusions to the whole audit system.

Moreover, despite these positive indications, different concerns have also been raised in the academic and governmental literature as to the cost-effectiveness of such developments. On the costs-side, concerns have been raised about

- the direct costs of such evolutions. Some authors worry about an ‘audit society’ (Power, 1999);
- the indirect costs, and particularly the financial and non-financial burden imposed by such an audit system for audited organizations (IBO-Werkgroep Regeldruk en Controletoren, 2004); and
- the opportunity costs. For instance, the emergence of performance audits could come at cost of a sufficient attention to financial audits (Hepworth, 1996; Sutherland, 2002).

On the effectiveness-side, different shortcomings were reported, such as:

- unsatisfactorily results: non-utilization of audit findings, insufficient information on impacts of audit, insufficient performance improvement (Morin, 2003, 2008),
- negative side effects. First, audit could create an illusion of a performing public sector with no real substance behind surface. This phenomenon is generally labeled decoupling (Meyer & Rowan, 1991). Second, audits are accused of narrowing the vision of audited body, whose managers focus on audited items at the expense of others (Van Thiel & Leeuw, 2002). Finally, audit would colonize territories at the expense of other professionals (Power, 1999).

Even if these concerns are not empirically supported (Van Looke & Put, 2010), these critics challenge the opportunity of these developments. We think that this presentation of things

in terms of trends, implying an idea of a progress, must be broken down in order to allow thinking of public audit in terms of cost-effectiveness and alternatives.

Indeed, we suspect that the present configuration of the public audit frames the very terms in which we think of the past: as a would-be harmonious system.

We rely therefore on the concept of jurisdiction. According to Abbott (1988), a jurisdiction is a link between a profession and a particular task. He distinguishes between two types of links. With cultural links on the one hand, a profession imposes its knowledge system to a particular activity, giving the activity its definition. The structural links on the other hand, are the recognition by different audiences of the cultural jurisdiction of a profession upon a task. This concept throws another light on the international trends concerning public audit systems. For instance, it allows considering performance audit not as a concrete activity but as an indication that the knowledge system of auditors has been linked to a domain of activity we could call ‘government performance review’, and that this link has been recognized by different audiences in different countries. It also shows that the very idea of an audit system to be coordinated entails the recognition of the audit’s frames of reference as legitimate. This leads on its turn to think of the past in terms of a not-wholly mature audit system. We thus retain the concept of jurisdiction because it allows envisioning alternatives to the seemingly universal story of audit in the public sector.

Abbott goes even a step further by considering a whole system where professions compete with each other for jurisdictions: a jurisdiction is only a punctual settlement of jurisdictional disputes. Abbott argues that abstraction is the main mechanism of jurisdictional change, “the currency of competition” (Abbott, 1988: 102). He distinguishes two kinds of abstraction:

“One abstraction emphasizes mere lack of content; that is abstract which refers to many subjects interchangeably. A second abstraction emphasizes positive formalism [...]; that knowledge is abstract which elaborates its subject in many layers of increasingly formal discourse. [...] The medical model [...] exemplifies abstraction in the first sense; the wide applicability of this general metaphor reflects the subtraction of its particular content. The discipline of physics, on the other hand, embodies abstraction in the second sense. It is limited in subject, but extremely formal in treatment.” (Abbott, 1988: 102)

In this paper, we retain these two dimensions of abstraction as variables for a public audit system. We call them formalization and abstraction. After all, as Abbott argues, in order for a jurisdiction to exist it must be recognized by different audiences, among other the legal one: policy-makers are not compelled to link the audit profession’s knowledge system to government tasks. If they were to recognize such a jurisdiction, we argue they can make a choice as to the desired degree of formalization of the audit process and scope of audit activities.

The remainder of the paper consists of a review of selected papers and empirical evidence. This information is classified along the two dimensions carved out by Abbott of formalization and abstraction. The objective is to illustrate the variety of thought in the field and to indicate possible arguments for choosing an alternative route to the seemingly universal story of audit in the public sector. For each group of papers, beginning with the dimension of formalization, we distinguish between:

- the diagnose made: ‘How is the situation described?’, ‘Which problems are observed?’; and

- the treatment suggested: ‘What solutions do they propose to remedy to the recorded shortcomings?’

In the concluding section, we summarize how the different doctrines (Hood & Jackson, 1996) position themselves on the axes of formalization and abstraction; and we derive new research questions.

OBJECTIVITY AND SUBJECTIVITY: THE FORMALIZATION ISSUE

The auditing literature has always witnessed ongoing debates as to whether the audit process should follow a pre-established blueprint or rather give more latitude to the individual auditors.

This ongoing debate has been translated to the theme of performance audit: should the performance audit process be formalized in order to produce accurate results or should it be flexible enough in order to provide relevant findings?

We thus argue that an audit process in the public sector must not necessarily consist of confronting evidence to norms; that other legitimate options exist for a public audit system.

In general

There is a debate in the audit profession about the ideal audit process: should it be rule-driven or objective-driven? Which discretion should be left to the individual auditor? In this section we briefly outline the general arguments presented by the supporters of each camp. We discuss the typical audit process these perspectives entail.

Positivist audit

According to most scholars (Francis, 1994; Dirsmith & McAllister, 1982; Bovens et al., 2006), audit is commonly perceived in a positivist, scientist, mechanistic or objectivist fashion.

Whatever the chosen label, this version of audit starts from the assumption that values and facts can be separated from each other.

Audit is then a process by which facts are being retrieved, and confronted to norms. In financial audit, this consists in comparing the accounts to generally accepted accounting principles.

Auditing is essentially normative (Chelimsky, 1985), and results in a professional opinion as to the reliability of the accounts examined.

Typical for this paradigm of audit is that the outcomes are exogenous to the audit process. Audit stops with the statement it produces, which is transmitted to a decisional body. In the public sector, external financial audit stops with the transmission of the audit report to parliament. It rests upon the Parliament whether or not to discharge the government, among others on the basis of the financial audit report.

Within such a view, problems with audit are diagnosed as flowing from a lack of control of the audit process, or from inadequacies in the environment of audit. In the first case, an audit fails when the rules governing it were not observed. The treatment then consists in

“(1) establishing higher standards of skill and competence that would serve as performance goals [...]; (2) designing and implementing quality-control policies and procedures [...]; (3) instituting an effective disciplinary system to impose penalties [...]; and (4) establishing an independent peer-review program to, in essence, audit the auditors [...].” (Dirsmith & McAllister, 1982: 214-5)

But the general adequacy of the process to its objective is not really questioned. Yet it is recognized that the audit process is not perfect: there still remain grey areas in the audit process preventing from its totally mechanistic application. But it is assumed that the professional algorithms by which complex situations are solved by practitioners can be unmasked through cognitive research (Power, 1996): the standards of professional practice indeed evolve, reflecting the progresses made toward a better control of the audit process.

On the other hand, problems are diagnosed as resulting from an unfavorable environmental setting that hinders auditing from fully delivering on its promises. For instance it is common to consider in the Canadian debate on public audit system that the partisan nature of the Canadian Public Accounts Committee impedes the proper treatment of audit findings, and to call for an evolution toward a more dispassionate, British-like functioning (Malloy, 2004). According to this view of audit, one of the major problems of public audit is the politicization of intrinsically managerial, factual affairs; the reconnection of facts with values. Such an assumption commonly leads to treatments emphasizing the need to de-politicize management issues, what in the practice often leads to calls to isolate the audit system from its political environment.

Constructivist audit

Such a functionalist paradigm on audit, however dominant, has been criticized in professional literature on auditing. We rely in this section on the works of Boland (1989) and Francis (1994) arguing for a hermeneutical turn of audit against the scientist perils. We consider hermeneutic audit as a variant of constructivist audit; both terms are here used interchangeably.

These authors see two threats in the increased formalization of audit.

On the one hand, they consider formalization as a threat to the accomplishment of the societal objectives of auditing. They aren't at ease with the assumption carried on by the positivist paradigm of auditing that audit objectives and procedures can be separated from each other, and fear for a substitution of mean for end. To quote Francis (1994):

“My argument [...] is that auditing practice is shifting away from a grounding in the auditor doing auditing (producing an audit), and toward the production instead of working papers, or what might be termed a discourse *about* the audit. [...] [I]n the limit, the audit becomes a pure simulacrum, an institutionally driven discourse about auditing that is its own reality.” (Francis, 1994: 260-1)
“[A]fter working through 600-plus questions there is a great feeling of relief that the job is done! [...] The auditor's objective becomes, in the limit, a matter of completing the questionnaire rather than understanding the internal control system.” (*ibid.*, p. 254)

On the other hand, the formalization would threaten the interests of the audit profession: if conducting an audit becomes a matter of fulfilling formal steps, why would we need auditors anymore? If a profession is defined by the esoteric nature of the services it provides (Hughes, 1963) which justifies the considerable privileges a profession enjoys, the

formalization of audit knowledge, by making these services transparent, observable to the layman, constitutes a threat to the profession. A certain dose of professional inference must therefore be preserved by the audit profession in order to avoid the perils of the commodification¹ (Abbott, 1988).

The solution they put forward is to rediscover audit as an ontologically hermeneutic practice. What is hermeneutics? Avoiding great philosophical debates, we will confine ourselves here to highlight the difference between hermeneutical and conventional audit. Auditing in its hermeneutical version starts from another assumption than in its positivist form. It denies the distinction commonly made in auditing between facts and norms:

“[D]iscovering the meaning of a legal text [auditing standards] and discovering how to apply it [them] in a particular instance are not two separate actions, but one unitary process” (Gadamer, quoted in Francis, 1994: 242).

The hermeneutic audit process not only confronts facts to norms, it also confronts norms to facts. In other words, the auditing norms are not to be taken as granted here but are as much put at test during each audit engagement as the audited body. There is thus an interpretative dialogue between general norms and concrete situation. Auditing standards are not frozen but susceptible of being adapted at the light of their application to a particular case.

“[T]he hermeneutic circle is the recognition that in understanding [the audited body], we depend on a theory of the whole to understand the parts, and, at the same time, we depend on a knowledge of the parts to guarantee our theory of the whole” (Boland, 1989: 595).

As in its positivist version, the hermeneutic audit process stops with the issuing of a professional opinion. A good audit report is not accurate but right: it is this opinion that conceals the auditing norms, the objective lying behind them and the observed reality. In contrast to the positivist version of audit, considerations of outcome are thus also part of the audit process in the hermeneutic version.

For Francis and Boland, audit, which has been alienated by scientism, has to be rediscovered as a hermeneutical, profoundly judgmental practice.

Performance audit versus policy evaluation

This professional debate about the right mix of objectivity and subjectivity in the audit process has not disappeared with the emergence of performance auditing.² We distinguish here two arguments commonly used when the new audit system does not deliver on its promises. In what we call the single audit model, corresponding to the positivist paradigm on auditing, problems and solutions are looked for inside the dominant paradigm. In the evaluative model, translating the constructivist perspective into the issue of performance audit, it is the single audit model itself which is considered as a problem.

¹ “Esoteric professional activity can be embodied in commodities, which can then be bought and sold without the involvement of jurisdictional professions” (Abbott, 1988: 146)

² On the contrary, we could even argue that it reappears thanks to the more elusive nature of the concept of performance: even if the above discussion indicates the contrary, financial audit is still considered by most scholars writing on performance audit as a perfectly objective technique. Usually they only detect flaws in the audit technique when applied to the issue of government performance.

The single audit model

In this section, we review two examples of public management policies relying on internal audit to deliver on their promises. In both cases shortcomings were reported, which were diagnosed in terms of lack of control on the audit process or environmental inadequacies. The proposed solutions were in the same vein.

In the Netherlands, an ambitious program of performance budgeting called VBTB asks from the internal auditors to add credibility to the annual reports in which departmental management renders account for compliance with the performance indicators derived out the budget (Werkgroep CDV-Accountancy, 2001).

A few years later, the government expresses concerns with the administrative burden such a system imposes on the audited bodies (Tweede Kamer der Staten-Generaal, 2005). The problem is then diagnosed in terms of coordination problems inside the audit system. The treatment consists in introducing the obligation for the management to write a ‘in control’ statement on the basis of risk analysis. From now on, this statement must become the principal object of audit activities (IBO-Werkgroep Regeldruk en Controletoeren, 2004). This allows reducing the audit burden on departments while maintaining the performance of the whole: instead of auditing the same accounts several times, only the ‘internal control’ is in contact with the departments, and the other auditors can limit themselves to audit the internal control, since the interests of the whole are congruent. But the ability of audit technology to produce ‘in control’ statement and audits of the latter is assumed, as well as the relevance of the whole programme.

In Canada, the 1994 review policy relies on departmental auditing services to inform policy decisions as to which programmes could be suppressed to reach the targets of budgetary cuts (Johnson, 2002; TBS, 1994). The policy clearly emphasizes the objectives (provide relevant information about the effectiveness of programmes and policies) over the process (both techniques of audit and evaluation could be used in order to achieve this objective, at the discretion of the civil servants), and can therefore be labeled as constructivist. The implementation of this policy has been audited by the external auditor; the Auditor General. He first expresses serious doubts as to the chosen audit paradigm:

“The new policy has introduced confusion as to what internal audit should be doing. Should managers expect that auditors will provide information on the extent of operational effectiveness in the departments [...]? Or is this issue to be addressed elsewhere, since it is not part of the internal audit role [...]? (OAG, 1996: 12)

Besides this fundamental objection, the remaining of the recommendations aim at strengthening the control on the audit process, recalling the private sector best practices, heightening the general profile of the audit function and streamlining the environment:

“A strong support from senior management is an essential precondition to an effective internal audit function.” (*ibid.*: 4)

“One important way for departments to signal the importance of the audit function [...] is through having internal audit report directly to the deputy head.” (*ibid.*: 6)

“[T]he federal government should implement the private sector practice of appointing members who are not public servants to its departmental audit committees.” (*ibid.*: 14)

In summary, the capacity of the audit process to generate objective information is here assumed. If it appears that it is not the case, this can only rest on implementation gaps: lack of process control and environmental inadequacy.

The evaluative model

The supporters of an evaluative model of performance audit are very doubtful of the adequacy of a uniform audit process to the objective of measuring government performance. They emphasize the variety of public products and the lack of agreement on the objectives of public programmes. They do not see how a single audit model could contribute to better government performance and express concerns about the side-effects flowing from an excessive focus on quantified performance indicators (Van Thiel & Leeuw, 2002) and the disconnection of audit with the real political life.

Starting from the assumption that it is impossible to give an objective opinion of government performance, they consider that auditors necessarily express a political view in their performance audits: the choice of an audit matter is a political one, because it will draw attention to particular programs, the choice of a particular set of norms as yardstick for government performance is a political decision, since it will cast the terms in which the debate is carried on, etc...

Since it is impossible to provide objective information, auditors should accept this political role and make a right use of it. For the advocates of the evaluative model, performance audit adds value by throwing another light on a policy problem (Ling, 2003; Pollitt & Summa, 1996), not by confirming what another auditor has already said or by taking the governmental definition of performance as granted. This is consistent with the traditional watchdog role of auditors and different legitimate values. For instance, democratic theories assuming the functionality of dissent voices inside a political system (Popper, 1989; Sunstein, 2003) are called for in order to legitimize such an orientation. Concerning the audited body, the provision of alternative voices can contribute to progress, in the ideal of a learning organization (Levitt & March, 1988).

Performance audits in an evaluative mood would be characterized by a much less formalized process, leading to non-standardized, stand-alone products, totally oriented toward their objective: providing relevant information on government performance. Of course, there are different views on what constitutes a relevant contribution (Dhaler-Larsen, 2006).

The dimension of formalization

From the above discussion emerges a first dimension of choice concerning a public audit system that does not appear in discussions in terms of international trends: to what extent should the performance audit process be formalized?

On the one hand there are those supporting a highly formalized performance audit process. They assume that it is possible to objectively review the performance of government, at the condition that the auditor is independent from the auditee, because factual information could otherwise be polluted by political interests.

This envisions a system where decision-makers are assisted by experts who feed them with objective information in order to make the most rational decisions possible. Because we commonly distinguish three levels of decision-makers, ranging from strategic to operational level, three layers of auditors can be distinguished. But ultimately the interests of all these players are congruent: make the government perform as best as possible. A vertical coordination of the auditors is therefore desirable, in which the above layer builds on the lower layer's findings, in order to reduce the audit burden for the auditee. The efficiency of the whole could furthermore be improved by making the political institutions less political and more rational, and by unmasking the last areas of the audit process which still leave room to practitioner's judgments. After all, audit technology is not perfect but follows a continuous improvement path.

The performance audit process therefore begins with an analysis of the risks for the accomplishment of policy objectives. This analysis results in an audit plan, in which the different organizational areas are ranked according to their degree of risk. In each of these areas in decreasing order, evidence is collected and confronted to the performance indicators. This process leads to a professional opinion as to the conformity of the reality to performance indicators. The outcome of such a work is situated outside the audit system. Audit provides information that allows political leaders to make more rational decisions.

On the other hand there are the constructivist performance auditors.

This perspective assumes that each opinion is subjective in nature, whatever the degree of formalization of the process that led to it. Since every audit report is political, ethical considerations are best reintegrated into the audit process.

They do not consider a vertical system of audit composed of external audit, internal audit and internal control whose harmony of interests would justify attempts at a better coordinated whole. Rather, they consider the system horizontally, where each auditor is situated between an audited body and the body acting as a sounding board for its findings. The audit system is then better understood as three loosely integrated systems, a parliamentary, governmental, and administrative one, whose interests are not congruent. It follows that the coordination of these systems is not desirable. Rather, each auditor should specialize on his own system of interactions, trying to make a distinctive contribution to the political debate, distinctive in the sense of different from what already exists.

Such an audit process begins with a careful appraisal of the situation: involved organizations, programme's history, political arguments and the positioning of the different information providers are first screened. Because each situation is different, it has no point of specifying beforehand whose steps will be undertaken. It all depends on the particular situation. This is not to say that the audit process can be conducted in any way. Rather, the audit findings will be made publicly available. There will be a debate where the auditor will get the opportunity to present its approach of the subject and to argue why this is better than another one. From this deliberation will emerge the actual value of the audit findings.

FINANCIAL AUDIT AND PERFORMANCE AUDIT: THE ISSUE OF ABSTRACTION

The degree of formalization of the audit process is not the only issue which is being debated in the literature.

Different authors have also expressed concerns about the expansion of the ‘idea of audit’ (Power, 1999) to new areas, among others that of government performance review. A first group of authors argues that the audit process is far less formalized in practice than in official discourse, and that this ultimately allows the auditing profession to expand its jurisdictions far beyond financial audit. By calling for greater transparency about the audit process, they question the opportunity of delegating different tasks to the profession of auditors.

The issue of division of labour between auditors and other societal players is more directly addressed by a second group of authors. They consider the extension of audit jurisdictions as illegitimate and call for another division of labour to the benefit of other groups.

From this discussion emerges a second dimension of choice for a public audit system; that of the potential scope of audit work or in other words the degree of abstraction by which the audit mandate is defined.

The audit society theory

In this section, we review selected works of authors who form the auditing counterpart of the body of literature known as ‘critical accounting’³.

They share the ambition of deconstructing the seemingly harmonious public face of audit and presenting the actual audit process beyond its cultural artefacts.

We expose here two main arguments synthesized by this body of literature.

On the one hand, it is argued that positivist and constructivist versions of the audit process outlined above are the two faces of the same coin: while the audit process is presented as highly formalized in public; it is profoundly judgmental in the reality. We call this the decoupling hypothesis⁴.

According to these authors, this decoupling is a problem since new jurisdictions have been granted to the audit profession on the false assumption that its technology could provide objective information.

The decoupling hypothesis

According to Meyer & Rowan, when an organization is confronted with external institutional pressures inconsistent with internal norms, an effective strategy consists in decoupling the formal structures from the actual activities (1991: 57-8).

The works reviewed in this section argue that this is the general strategy followed by auditors: because the environment asks from audit what it cannot deliver (objective information), audit is presented to the society as highly formalized while its profoundly judgmental character is hidden to the outside world.

We illustrate this hypothesis by relying on the works of Power and Radcliffe.

³ For a review of this body of work, see Napier, 2006; Broadbent & Guthrie, 1992. For such interpretations of accounting, see a.o. Loft (1986); Hopwood (1987); and Miller & O’Leary (1987)

⁴ However, the same phenomenon is described in the literature on financial audit in the private sector as ‘expectation gap’. For literature on expectation gap, see a.o. Humphrey & Moizer (1990), Humphrey et al. (1992), Mills & Bettner (1992), and Sikka et al. (1988)

According to Power (1996), the idea that audit collects evidence is an illusion. Rather, he argues, audit “makes itself possible by actively creating the environments in which it operates” (1996: 295). We retain two examples from his demonstration. In the first one, Power shows how an audit team and an audited body have agreed on a system of time recording in order to make an audit of research activities possible. He concludes:

“[F]ar from being an objective and neutral property of information systems, auditability is largely a product of a consensus about the nature *and detail* of evidence required” (Power, 1996: 298).
“Auditing requires a “reality” against which [it] can operate and in the research context audit must literally *create* the environment in which it operates” (ibid: 299, original emphases).

Power also shows how intangible things such as the value of a brand can be made auditable:

“[A]uditors will audit brands in the same way many other items are audited: by relying primarily on other expertise. In this way the auditability of problematic things is ultimately accomplished by an *externalization and proceduralization of the evidence process*, a specific style of delegation to credible experts which is a mixture of trust and verification” (Power, 1996: 307).

Power denies that certain things are auditable while others are not. For him, everything can be audited as long as there is a social consensus about the auditability of things, as shown in the cases of research and brands.

Radcliffe (1999) found evidence for the decoupling hypothesis in his observation of three efficiency audits conducted by the Albertan Office of the Auditor General⁵ (OAG). The Albertan OAG’s audit manual describes the auditing process as a series of “discrete steps, standards of evidence, and objectives”, by which “knowledge of business is collected” and “compared with agreed upon audit criteria”, resulting “in findings [...] finally published as audit recommendations” (1999: 341). This is consistent with the positivist paradigm of audit. But the observed process does not fit this official story.

According to Radcliffe, the three audits rather began by

“establish[ing] which kind of recommendations would be found credible by government administrators, managers, and, to a certain extent, politicians” (Radcliffe, 1999: 345).

The remainder of the auditing process consists then in justifying the conclusions reached, by

“gathering evidence to support the recommendation” (from interview, *ibid.*: 352).

The final objective is then

“to demonstrate that we [the audit team] deserve to continue to have the scope of work given to us” (from interview, *ibid.*: 355).

⁵ We do not argue that his findings can be extrapolated to all audits all over the world. We chose this text for illustrative purposes.

Rather than confronting evidence to norms in order to issue a judgment, audit begins, as observed by Radcliffe in three audits of the Albertan OAG, by defining acceptable recommendations before searching evidence supporting them.

Since the formal and actual auditing processes are decoupled from each other, the public auditing production fulfils legitimating functions:

“[P]ractitioner intuitions about assurance levels must be written up to connect to legitimate myths of official knowledge, a process in which feelings of comfort must be represented as cognitive in form” (Power, 1999: 38).

The self-legitimizing functions fulfilled by the auditing production are further emphasized by Humphrey et al. (1990). They conducted interviews with auditors in order to identify the functions fulfilled by audit planning activities.

They found that audit planning indeed fulfills its formal role of tool for controlling the process. However, the audit plan was not considered as a “to-do list” but rather as a “guide” (interviewee, p. 228), because ultimately

“however sophisticated your tables are, it comes down to judgment” (from interview, Humphrey et al., 1990: 228)

This supports the decoupling hypothesis. Beyond this, audit managers highlighted the legitimizing role of such a technique in dispute with clients:

“it should be particularly helpful in defence to a court action” (from interview, *ibid.*: 226).

We thus have a consistent set of works arguing that formal accounts of audit misrepresent the reality. And then, one could ask, what’s the problem?

The audit society

According to Power (1999), the decoupling between the public face of audit and the workplace realities is a problem, since society at large has relied on the false assumption that audit could provide objective information to entrust it with new jurisdictions. Power argues that the decoupling has distorted the terms of choice, at the benefit of the profession and the expense of society.

He goes further to describe a snowball effect, an ‘audit explosion’. The decoupling does not only distort the terms of choice, but it makes impossible to evaluate after the facts if audit delivered on its promises. Indeed, since the audit process is rewritten to match the public expectations as to its objective, formalized character, the actual audit process is hidden behind artifacts, and it becomes impossible for a non-auditor to assess whether or not the actual audit process followed the official blueprint without relying on an auditor. Audit becomes unobservable. Because audit is unobservable, nobody can say whether it has fulfilled its mission. As a result the audit profession can continue to claim new jurisdictions opened up by government programmes, leading to an audit explosion.

What is then the solution? Power only suggests that the audit explosion should be evaluated⁶. In this line of reasoning, audit should be transparent about its merits and limitations so that the ‘purchaser’ can make a choice, in full knowledge of facts, as to what he wants of audit at which price, narrowing ideal market conditions.

Whether accurate or not, the merit of such theories is to question the evolution from the traditional toward the ‘new’ public audit system, and more particularly the extension of audit to the issue of government performance review.

Such a view suggests that this jurisdiction could have been occupied by other groups. This is the line of arguments we review during the next section devoted to reductionist perspectives on audit.

Performance audit and division of labour: reductionist perspectives on audit

As it appears from the arguments presented in this section, other arrangements could have been imagined where a significant portion of the territory now occupied by auditors would be left to other groups. To quote Pollitt et al.:

“It is possible to imagine scenarios in which this uncertainty about ‘standard practice’ could be exploited to the disadvantage of performance auditors [...]. It could be argued [...] that performance audit isn’t really audit at all, and [...] that it should be decomposed into its elements and distributed to the ‘real experts’. [...] [T]o [...] lawyers and accountants [...] would be left the traditional forms of regularity audit plus new and developing elements of financial analysis.” (Pollitt et al., 1999: 213)

We distinguish two candidates for this area of governmental work which is now called performance audit: academics on the one hand, and politicians and civil servants on the other hand.

Abbott gives the label of ‘reduction’ to such argumentations where the jurisdiction of the incumbent profession (here: the auditors) is reduced to “one of the attacker’s already-secure jurisdiction” (1988: 98). Reduction works by claiming that “past perceptions mistook their appearance for their reality” (*ibid.*: 62). For instance, “child misbehavior is reduced to the disease of hyperactivity, and hence to the jurisdiction of medicine” (*ibid.*: 98).

We thus review two attempts at reducing the jurisdiction of performance audit to a sub-domain of academic research or policy-making, at the expense of the profession of auditor.

“Performance audit is policy evaluation”

Barzelay (1997), while asking how uniform or varied the performance auditing policies of six SAIs are, seems to question the current division of labour.

Starting from the assumption that performance audits are situated somewhere in between traditional auditing and program evaluation, he distinguishes the three concepts from each other along five dimensions: image of government, image of good functioning, primary goals of review, dominant mode of review, and role of reviewer. From this analysis, he concludes that the three concepts essentially differ on the dimension of mode of review: while traditional auditing and evaluation rely respectively on auditing and research, performance auditing relies on inspection to gather evidence. Building on this, he argues

⁶ Please note the use of ‘evaluated’ instead of ‘audited’.

“[...] that performance auditing –as a type– is not related any more closely to traditional auditing than it is to program evaluation. Put differently, performance auditing is not a subordinate category, along with traditional auditing, within a broader category labeled ‘auditing’.” (Barzelay, 1997: 242)

He pursues by dissecting the broad category of performance audits. He distinguishes seven types of performance audits along four dimensions: unit of analysis, mode of review, scope of evaluation, and focus of effort. He argues that only one of the sub-product labeled as performance audit (the performance information audit) relies on audit techniques as mode of review, one on research (best practice review), and the rest on inspection.

In other words, he considers legitimate that auditors conduct financial and performance information audit and that academics perform policy evaluations. Between this lays a zone susceptible of being claimed by both groups. Having observed that the audit profession has indeed won jurisdiction on these contested areas, he searches in the politico-administrative environment for factors accounting for explanatory factors:

“An audit body is probably less likely to face serious criticisms [...] if it serves a powerful legislative or executive client or if it has built up an effective cross-domain supporting coalition. As long as the clients or supporters are comfortable with the exercise of evaluative judgments in a relatively particularistic mode, the audit body may be insulated from serious challenge.” (Barzelay, 1997: 252).

But he finally confesses his preference as to the best suited group to take over this area of work by claiming, in an attempt at reduction, that:

“Performance auditing is evaluation” (Barzelay, 1997: 241)

Performance audit is policy making

Perhaps the most natural candidates for the jurisdiction on government performance review are politicians and civil servants. How can it be argued that performance audit is reducible to ‘common’ policy-making or ‘general’ administration? In order to exemplify such a line of reasoning, we give here a short account of Sutherland’s works on the Canadian audit system.

According to Sutherland, the value-for-money (VFM or performance) audit mandate obtained by the Canadian Office of the Auditor General (OAG) is a threat to the democratic system.

She first argues that performance audits leave a room for practitioner judgment. She doesn’t rely therefore on participative observations such as the advocates of the decoupling hypothesis, but rather notices the lack of methodological progresses made since the invention of the concept (Sutherland, 2002: 15), the absence of consensus as to the very possibility of objectively assessing government performance (Sutherland, 1980) or compares a ideal-typical social science methodology with the official OAG manuals and finds the latter disappointing (*ibid.*: 634).

She considers that, given the non-existence of a routine performance audit process, every decision taken by the OAG while fulfilling its VFM-mandate is a subjective one (Sutherland, 1980: 618, 640; 1981: 43; 2002: 13):

“[T]he OAG has decided it has the right to pick and chose its VFM audit program subjects, pick and choose the kind of information it will bring to bear to ‘enhance understanding’ leaving out context as

it pleases, and make recommendations emerging from its construction of reality.” (Sutherland, 2002: 15)

She insinuates that the Auditor General (AG) can make use of this discretion to advance partisan objectives, by reminding one speech one AG made before being appointed to the function:

“The Auditor General’s speech caricatures bureaucrats as fanatic spenders of money which they regard as ‘wampum’. [...] They are campaigning-type conservative values.” (Sutherland, 1980: 641)
“[His] purpose in wanting to entrench the program evaluation function at all levels of government is surely to push big government into cutting itself back to small government, indeed, small-c conservative government” (*ibid.*: 640)

The problem is not that the AG expressed political opinions as such, but that he does so outside the accountability structures typical of a democratic state:

“The situation is that auditors, who are neither elected nor held to account by any person who has been elected, can force the Departments to change wording of policy objectives, and may force adoption of certain objectives only because they are readily quantifiable. What has become of political accountability for policy direction? The auditors are mavericks in the system.” (Sutherland, 1981: 43).
“The new centrality that is being claimed by ‘audit’ involves a loss of control of the political agenda by the elected leadership through a potentially significant sharing of executive authority.” (Sutherland, 1986: 145)

At longer term, the VFM mandate would lead to smaller government because it puts pressure on government programs:

“The government in effect will be much less free to initiate, conduct, and implement its own analyses for the achievement of its own purposes. It will be less free to experiment with programs for their policy utility. Instead, government is driven into a continual defensive posture, as it is for bureaucracy.” (Sutherland, 1980: 639)
“The political cost of the value-for-money audit is therefore clear. As a nation, we stand to have entrenched philosophical conservatism inside government, regardless of the partisan stamp of the elected government. We stand to have much routine analysis, and many public servants to provide the analysis, but fewer public services. We stand to have a public service raised in an ethos, not of providing services to the public, but of watchfulness and suspicion toward other members of the service” (*ibid.*: 643-4).

According to Sutherland, performance audit, as a policy-making activity, must be re-brought under the democratic system of government. She sees two possibilities therefore:

“In this writer’s opinion, the legislative mandate of our OAG must be changed to define a more controlled activity. [...] Potential changes to the legislation could range from adopting some of the limiting mechanisms that are in place in other jurisdictions, to simply returning the Office to a more traditional audit role with wide reporting powers.” (Sutherland, 1986: 147-8).

To summarize Sutherland’s argument, because every statement about the performance of public services is of a political nature, this activity should be subjected to mechanisms of political accountability. This implies a limitation to the independence of the OAG concerning its VFM mandate or the abolition of the latter.

Performance audit, she argues, is not about measuring performance but about policy-making and this activity must therefore be brought under the jurisdiction of policy-makers or civil servants.

The dimension of abstraction

The above discussion throws another light on the evolution of the audit pyramid: the explosion of the idea of audit (Power, 1999) is not necessarily a move toward progress, and other jurisdictional settlements could be imagined. The issue reviewed in this section concerns how audit is defined.

On the one hand, audit can be loosely defined as an idea (Power, 1999), the idea that audit is an independent examination of accounts. By avoiding linking this idea to particular accounts, it can freely expand itself to new domains and players, and present these expansions as a disinterested response to emerging needs in society. To recap the official story presented in figure 1:

- audit was an independent examination of financial accounts. When performance accounts made their appearance in the public sector, the need arose to get assurance about them. So came the practice of performance audit to light;
- audit used to provide assurance to Parliament about the government. When NPM introduced a greater policy-administration dichotomy inside government, the need to have internal audit arose.

When defined as an abstract idea –in Abbott’s sense of subtraction of content–, audit can gain new jurisdictions such as those of internal audit or performance audits. But, as Abbott (1988) argues, holding different jurisdictions makes them less secure, and more susceptible of being attacked by other groups. In this section, we reviewed two lines of attack, from academic and governmental troops.

These two contributions have indeed in common to define audit in a less abstract manner, by linking it to particular accounts or players. They do not consider audit as an idea susceptible of being applied everywhere with universal effectiveness. They rather view audit as a set of concentric circles with different potential effectiveness. In its core domains of financial and compliance audit, audit technology provides a distinctive added value. But this effectiveness decreases to the extent that it is applied to peripheral matters, such as efficiency and effectiveness. It is possible to argue that the competitive advantage of the audit profession over the other groups decreases to the extent that it moves out of its secured core of financial and compliance audit, that performance audit is not really audit and that the knowledge system of other groups such as academics, civil servants or policy-makers are better suited to this area of work.

Such a view limits the definition of audit to particular areas of work. But we could also develop a theoretical argumentation by which audit is limited to particular players or functions. An example of this is given by the doctrine of communicating vessels.

This doctrine assumes that each profession fulfils a function in society.

Moreover, this doctrine assumes that the demand of societies for certain goods is culturally defined (Hofstede, 2001). According to the cultural settings, the initial degree of trust between two players is higher or lower. Since audit replaces or complements trust between players (Power, 1999), this doctrine argues that the demand for public audit is measurable and limited. Of course, this demand for public audit can fluctuate, according for instance to

the extent to which NPM has penetrated the public sector: the total demand for assurance produced by audit will be higher in New-Zealand than, say, in Germany.

If one accepts that audit produces a good whose demand is culturally defined, it follows that the division of labour between the different auditors should follow the logic of communicating vessels: the quantity of resources to be devoted to one level should be inversely proportional to the quantity of resources devoted to the two other levels. In other words,

- if more external audits are produced, the sum of the production of the internal audit and internal control should decrease proportionally;
- each investment in the internal control should be compensated by a symmetrical disinvestment in the internal audit and external audit;
- an expansion of the internal audit should go with a shrinking of the internal control and external audit functions;
- etcetera, ...

Building on this, it is possible to argue that internal audit is superfluous, since the external auditor antedates it and already answers to the culturally defined demand of public audit.

CONCLUDING REMARKS

In this paper, we have tried to take stock of academic controversies surrounding the evolutions of audit in the public sector. While there used to be a legislative auditor performing financial and compliance audits, there are now more players and more tasks, what led to questions as to the cost-effectiveness of such developments.

We have identified six literature streams which make a different diagnose of the situation and propose different remedies. Relying on Abbott's framework, locating in abstraction of knowledge the core of the professional phenomenon, we have argued that these streams or doctrines can adequately be classified according to two dimensions.

The first controversial dimension appears to be the formalization of the audit process: should audit consist in the formal execution of a sequence of steps, independently of the audited body and the individual auditor, leading to objective results. Or should it be flexible enough to allow the individual auditor to produce findings relevant for the individual case? This question leads to ongoing debates in the profession, about financial audit as well as performance audit. We identified four possible arguments on this issue, which we labeled positivist, constructivist, single audit model and evaluative model.

The second debated dimension is the degree of abstraction of audit: should audit be loosely defined as an idea, allowing it to expand its jurisdiction toward performance audit or internal audit, or should audit be defined in relation to particular variables limiting its applicability?

We reviewed two ranges of theories taking a stand on this dimension. On the one hand, audit society theorists argue that the audiences have, so to speak, bought a pig in a poke: thinking that audit could provide objective information, we have invited this technology to enter new domains. But it is incapable of providing objective information. On the other hand, reductionist authors have argued for a narrowing of audit abstraction: other players than auditors would be better suited to review government performance.

Table 1 summarizes these findings

Audit 'doctrines'	Diagnose: what is the problem?	Treatment: what is the solution?
Positivists	<ul style="list-style-type: none"> – There remain grey areas in the audit process to be formalized – Partisan use of audit findings 	<ul style="list-style-type: none"> – Detect the algorithms and formalize the process – Distinguish policy from management issues
Constructivists	<ul style="list-style-type: none"> – Substitution of means for end – Threat of commodification 	<ul style="list-style-type: none"> – De-formalize the process – Claim the subjective nature of audit
Single audit model	<ul style="list-style-type: none"> – The administrative burden on audited bodies is too high – There are implementation gaps 	<ul style="list-style-type: none"> – The audit system should be better coordinated – The reform process must be monitored
Evaluative model	<ul style="list-style-type: none"> – It is impossible to objectively assess government performance 	<ul style="list-style-type: none"> – Auditors should rather provide relevant information
Audit society theorists	<ul style="list-style-type: none"> – The actual audit process is decoupled from the formal accounts of it, leading to an audit explosion 	<ul style="list-style-type: none"> – There should be transparency about the audit process so that people can choose where audit is needed
Reductionists	<ul style="list-style-type: none"> – Audit holds too much jurisdictions – This has negative consequences 	<ul style="list-style-type: none"> – Audit should concentrate on its core tasks: financial and compliance audit – The peripheral jurisdictions of audit should be given to the right specialists

Table 1 – Six audit doctrines: diagnose and treatment

Finally, we could reduce this diversity by clustering the six doctrines on audit into three groups according to the broader philosophies of public management that link them to justifications (Hood & Jackson, 1996: 13).

The positivist and reductionist perspectives on audit could then be grouped under the banner of 'public administration'. They see public audit as limited in scope and highly formalized in process. Such a position can be justified by theta-type values such as fairness, neutrality and accountability: auditors can provide expert advice but should not enter politics.

The single audit doctrine, with its insistence on process formalization and its acceptance of a broad definition of audit, can be related to NPM philosophy through sigma-type justifications relating to the match of resources to task: in the absence of bottom line, auditors should provide an independent assessment as to the economic, efficient and effective functioning of public services.

Finally, the evaluative model could be interpreted as the translation into audit-issues of nascent post-NPM paradigms labelled Progressive Public Administration (Barzelay, 2001) or Neo-Weberian States (Pollitt & Bouckaert, 2004). Such philosophies can link lambda-type justifications such as adaptivity, learning and resilience to doctrines considering audit as a highly abstract and less formalized practices: an external advice can foster creative redesign of public policies respectful of democratic principles.

To conclude, we discuss some research avenues opened up by such a way of thinking. There remain empirical, theoretical and normative questions to be addressed.

A first set of questions is of empirical nature. In this paper, we have emphasized how preferences about the future state of affairs are induced by the diagnose one makes about the current situation. Therefore, before claiming the superiority of a particular doctrine on

public audit over another, it seems advisable to reach a reasonable consensus about the current situation.

For instance, the idea that the auditing profession has gained new jurisdictions at the expense of other groups yet lacks empirical underpinning, has been criticized here or considered there as an UK-exception. And if audit is not gaining new jurisdictions, which groups do provide information on government performance?

What we need are maps of jurisdictional evolutions in different countries. We must know when which group has gained jurisdiction over the task of government performance review and where. We must situate the 'evolutions of the public audit system' in time and place and characterize them.

This leads us to the more theoretical questions. We can expect from such jurisdictional maps to display a greater empirical variety than what doctrines of audit suggest: according to national contexts, different patterns of change will be probably be observed. Then raises the unavoidable question of the explanation for such differences: why were comparable jurisdictional struggles settled on another way according to the context? Abbott draws our attention to different factors, internal as well as external to professional groups, which can influence jurisdictional settlements. In our view, this professional lens could gain from integration with institutional perspectives on public audit systems.

Indeed, we have neglected in this paper significant pieces of work on public auditing *institutions*. After all, the mandate on public audit is entrusted to public organizations. These are depicted in the literature as searching for legitimacy flowing from process or results (Pollitt & Summa, 1997). Professional mythologies are organizational resources in this quest. In what is perhaps the most cited work on performance audits, Christopher Pollitt and his colleagues (1999) depict SAI as paradoxical organizations, fuzzily mobilizing and synthesizing different professional paradigms in order to direct the organization toward strategic paths whose viability is institutionally defined.

We think there is a room for integration of organizational and professional perspectives on audit. For instance, it could be interesting to see under which circumstances the organizational needs for legitimacy meet the professional interests for jurisdiction expansion. We think there are, between tasks and professions, organizations who allow both worlds meeting.

Finally there are a lot of normative questions to be answered: which public audit system would perform best?

The first step in such a programme is to develop alternatives among which to choose. In this paper, we have made a first, limited, contribution to this objective, by sketching different audit doctrines. These doctrines now need to be worked out and translated to system configurations: which players, which functions, which interactions do they imply? Metaphors should be invented and linked to legitimate social values. Because one of the strengths of the single audit model is its capacity to be translated into ready-to-use implementation guidelines. Rather than complaining about an audit explosion, it would be more productive to develop credible alternatives to it.

The second step is to analyze the circumstances under which one model can better perform than another. This leads to the introduction of a third dimension, next to audit process and scope: the dimension of hybridity. We have indeed neglected another body of literature which could be called contingent. One version (Abma & Noordegraaf, 2003) argues that audit should be tailored to the economic nature of the goods produced by the audit body:

one should not audit a school on the same way than, say, a fiscal bureau. One size does not fit all, it sounds. The other version links ideal-typical audit systems to broader public management doctrines: a NPM-country should need another audit system than a Neo-Weberian State.

These hypotheses should be scientifically underpinned.

Ultimately, we are talking here about the cost-effectiveness of particular jurisdictional settlements inside the public sector. It could well be that more audit does not mean better government. But this does not necessarily imply that other jurisdictional settlements would lead to better results.

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