Public sector audit: New Public Management influences and eco-system driven reforms

Abstract:

New Public Management (NPM) has undoubtedly transformed the public sector auditing context, although different currents flowing from NPM have affected auditing in several quite different ways. Investigations into its impact on public sector auditors have been largely unconnected except the critical examination of performance audits, developed to assist in the monitoring of service delivery functions and programmes, to bring efficiency and effectiveness. Other impacts on public sector auditing include additional management and governance techniques introduced from the private sector, such as internal auditing and audit committees. NPM was also followed by conflicting trends, particularly when governments introduced competition to public sector auditing by contracting out, but sometimes changed when improving accountability required public sector control of audit. Meanwhile, the international bodies supporting government auditing have developed and influence public sector auditing, including harmonising public sector auditing practices with the private sector through adapting private sector audit standards.

This article examines and synthesises public sector audit research over the last three decades regarding these reforms. We present research considering changes to external and internal public sector audits, as well as the development of public sector institutions – known as supreme audit institutions (SAIs). In so doing, we answer the question of how public sector auditors’ structures, roles and influence have changed as a result of NPM and later reforms. We find that there has been considerable change, some of it influenced by NPM and some of it by other factors. External auditors have an important influence, as the demand for accountability has increased, and areas like sustainability require more attention from auditors. There is also greater international influence through bodies like the International Organization of Supreme Audit Institutions (INTOSAI) and similar regional bodies. Internal audit is another area which has increased in importance in the public sector in recent decades.

Key Words: Public sector audit; New Public Management (NPM); Supreme Audit Institutions (SAIs); audit reforms.
Public sector audit: New Public Management influences and eco-system driven reforms

1. Introduction

Audit in the public sector has a long history, having been established to hold public servants accountable to parliament and ultimately, to citizens (Cordery & Hay, 2020; Hay & Cordery, 2018). As a result of the New Public Management (NPM) reforms, regimes of accountability in the public sector experienced several significant changes driven by market-based and calculative-based notions of economy, efficiency, and effectiveness (Broadbent & Laughlin, 2013; Ferry & Midgley, 2022; Pallot, 2003). Researchers’ interests have largely focused on critiquing performance audits, developed to assist in the monitoring of this economy, efficiency and effectiveness (‘value-for-money’) in respect of public services; with prior literature reviews and analyses scarcely examining other impacts of NPM on public sector auditors.

Nevertheless, the past three decades have seen dramatic changes to the professional and structural development of public sector institutions – known as supreme audit institutions (SAIs) – and external and internal public sector audits. NPM was applied to the provision of auditing itself, resulting in more work being put out to tender, and in some cases, that work being brought back under the government audit office to achieve greater accountability. Internal auditing and corporate governance structures such as audit committees have been more widely introduced. SAIs have also taken part in the activities of the International Organization of Supreme Audit Institutions (INTOSAI) and similar regional bodies, which encourage the use of similar auditing standards and practices by different SAIs. The NPM also brought new management practices into the public sector, including internal auditing and more sophisticated corporate governance activities such as audit committees. Not all change is spurred by NPM but by contextual matters (Monfardini & Maravic, 2012) and changes in the wider eco-system of auditing, driven by *inter alia*, domestic and international concerns, technology and the profession (for example, Nath et al., 2022). It is the purpose of this article to examine the progression of public sector audit research over the last three decades to answer the question of how public sector auditors’ structures, roles and influence have changed as a result of NPM and other influences. It is our hope that this article will contribute not only as an informative historical review, but more importantly to spur other research into this under-researched area.

Next, we present the context and method designed to undertake this review of literature. This includes the reasons for audit to be demanded, a brief overview of the NPM reforms, and types of audits undertaken in the public sector. The literature reviewed is presented next in sections 3, 4 and 5 respectively, covering: the structure of public sector audit, in particular SAIs, external auditing of financial and non-financial reports; as well as other issues where performance auditing is needed; new ‘products’ requiring auditing; internal auditing; and changes in governance. Some ‘new products’ are NPM-related (such as Public Private Partnerships (PPPs)) and others have arisen within the auditing eco-system (e.g., open government initiatives emanating from demands for greater transparency, and digitalisation). The article concludes with a discussion and opportunities for further research.
2. Context and method

History records many instances of auditing to ensure the integrity of public sector expenditure, but audit did not evolve in the United Kingdom (UK) in a modern form until the seventeenth century when parliament gained the right to raise new taxes, veto and audit government spending (Hay & Cordery, 2018). By the nineteenth century, the UK had established a separate audit department and the principle of independence to act as an accountability mechanism through which Parliament could monitor the Executive and its agents. Nevertheless, Funnell (1994) describes this independence as initially ‘illusory’ and requiring further strengthening if it was to meet demands for audit under agency theory. Management control is another possible impetus for public sector audit, especially as the state decentralises and the Executive seeks assurance regarding their control, and as management appreciate assistance with accountability reporting that can improve their reputation (Funnell, 1994; Hay & Cordery, 2018).

These arguments for audit provide explanations of the different types of audits undertaken in the public sector which can be summarised as (i) compliance audits, (ii) financial statement audits and (ii) performance audits (Cordery & Hay, 2020). Cordery and Hay (2020) show that a majority of SAIs perform all three of these, although the most innovative no longer undertake compliance audits. Compliance audits may comprise a priori checking of compliance with expenditure policies, for example, or a posteriori checks, for example, that the appropriate number of contracted services were delivered during a year (Cordery & Hay, 2020). Groenendijk (2004, p. 705) identifies the emphasis of specific European countries on each audit type, introducing the European Court of Auditors’ compliance audits as continuous and going ‘beyond the limits of any given financial year’. ‘Financial audits’ are typically mandated audits of entities’ general purpose external reporting, and in some countries this assurance may also examine non-financial (service performance) information (as noted in New Zealand by, for example, Keerasuntonpong & Cordery, 2018). Performance audits arose from NPM reforms and have been broadened to consider environmental issues, for example. They are described further below. Internal audits can include both financial and performance aspects.

Audits and audit types applicable to the private sector (see: Hay & Cordery, 2018) may also now read across to the public sector following NPM’s increased privatisation and outsourcing, and continued focus on accounting as a tool for managing. NPM reforms and subsequent related reforms strongly link audit with the notion of accountability, driving neoliberal changes in public sector management aimed at effectiveness and efficiency (Jacobs, 1998). Nevertheless, not all NPM-style reforms result in such ideals, as can be seen, for example, in Indonesia (Prabowo et al., 2017).

Appointing audit committees to receive reports from both internal and external auditors emanates from a governance explanation for audit (Hay & Cordery, 2018) emerging from NPM rationalising public sector adoption of corporate governance mechanisms from the

---

1 The UK norms developed over time are now recognised as the ‘Westminster model’ – one of the structural forms discussed further below.
private sector (Ellwood & Garcia-Lacalle, 2016) and the influence of factors such as the Sarbanes-Oxley Act in the wider audit eco-system. Public entities’ creation of audit committees enhances monitoring of the integrity of entities’ financial systems (Fitzgerald & Giroux, 2014; Matkin, 2010), although corporate governance relationships may work differently in the public sector. Botica-Redmayne et al. (2011) conclude that, while for profit-oriented public sector entities’ audit committees complement the board and other governance mechanisms, in not-for-profit public sector entities governance mechanisms can substitute for each other. Further, in their study profit-oriented public sector entities with audit committees incurred higher audit fees, while their not-for-profit counterparts were associated with lower audit fees (Botica Redmayne et al., 2011). Additionally, while Rich and Zhang (2014) find that few US municipalities operate audit committees, those they study had fewer internal control problems, potentially improving their internal control and external financial reporting.

To answer the question of how public sector auditors’ structures, roles and influence have changed as a result of NPM and other influences, we undertook a review of the developments reported in recent articles. As public sector audit is relevant to a diverse set of journals, and literature reviews of post-NPM audit and performance audits have been undertaken recently (see: Mattei et al., 2021; Rana et al., 2022), we decided against a structured literature review tied to specific journals or disciplines. Instead, key aspects of the research question were used to extract relevant articles from Google Scholar and the EBSCO Host databases where the articles referred directly to public sector audit, and were published between 1990 and 2022. We used search terms of “audit” and “public sector”, and “audit” and “supreme audit institutions” and “SAI” for books and journals that are listed on the Australian Business Deans Council (ABDC) list thus ensuring they had been peer reviewed and linked to academic endeavour. The list is available from the authors on request, with key articles being cited in this article. Next, we turn to the presentation of the literature covering the demand for audit, (specifically the structure of public sector auditing and NPM reforms) and public sector auditors’ mandate, or the work they undertake.

3. The demand for public sector audit
   3.1. Structure within which public sector auditors work

Public sector audits require staff and organisation, i.e., a structure to scope, carry out and report audit activity. In almost every country, SAIs are responsible for these tasks across agencies, whole of government, and sometimes local government and entities funded by government (World Bank, 2001; Cordery and Hay, 2021). SAIs perform a critical role in promoting sound financial management and link with the other ‘pillars of integrity’ (the media and Parliament) to develop accountability and transparency in government (although their capacity to do so differs according to their mandate).

While sharing a similar name, in addition to diversity in mandate, SAIs’ structures vary greatly, a fact often ignored in the few academic articles examining them (Cordery & Hay, 2020; Hay & Cordery, 2020). The most common SAI structure researched is the Westminster model
(based on the UK system) where an independent auditor-general manages a separate and independent statutory body that reports on its work to a Parliamentary Public Accounts Committee (however named) (Pollitt & Summa, 1997). In some countries an SAI operates from within the Ministry of Finance but maintains its independence. This is the second SAI structure. With a board model, the single auditor-general of the Westminster model is replaced by a panel or board who report either to the legislature or to Parliament (Arthur et al., 2012; Cordery & Hay, 2020). The fourth category, and third most common, especially in Latin Europe and French-speaking countries and Latin America, is the Napoleonic model comprising a Court of Audit with judges and legal staff (Aquino et al., 2022; Morin, 2001). Nevertheless, Cordery and Hay (2020) show the existence of ‘other institutional models’ and mixtures of all four differently described types. While their SAI data is not longitudinal, Cordery and Hay (2020) provide indirect insights into how public sector auditors’ structures, roles and influence have changed as a result of NPM and later reforms, including those introducing accrual accounting. The few studies of public sector audit are often based on single cases or cases with a singular model, highlighting the need for more comparative studies (Hay & Cordery, 2020; Mattei et al., 2021), especially due to the challenges this variety poses to independence and mandate, how SAIs respond to the NPM reforms and changes to the auditing eco-system. With respect to NPM reform, Norton and Smith (2008, p. 930) prefer the US ‘bottom-up market-oriented populism, as opposed to [the UK’s] top-down positive government progressivism’, stating that the US Federal system’s decentralisation ‘is more likely to deliver on the main objectives of NPM’ than the UK’s centralised system. Governmental structural variety is one aspect, but leadership is also important as shown in the French SAI (Benzerafa-Alilat et al., 2021).

### 3.2. NPM reforms and international influence

However structured, SAIs have key roles in reforming the public sector and holding governments to account for citizens’ needs (Smith et al., 2021). Thus, SAIs’ mandate is important. These vary considerably as shown by Clark and De Martinis (2003) and Clark et al.’s (2007) mobilisation of a framework examining the (i) relevant powers of parliament on SAI accountability; (ii) funding; (iii) oversight; (iv) audit mandate; and (v) independence from parliament and parliamentary committee direction. Of greatest concern is independence from government and there are many examples of failings in this regard. For example, Gong (2009, p. S14) states: ‘Due to the structural, procedural, and operational constraints over audits, audit for accountability is currently more of a myth than a reality in China’. Even where independence is strongly reflected in the SAI’s structure and enabling legislation, it seldom allows for SAIs to critique public policy (Cordery & Hay, 2020), rather SAIs maintain a ‘watchdog role’ (Jantz et al., 2015). Milgrom and Schwartz (2008) provide an example from Israel where the SAI criticised an important but sensitive water policy change and Jantz et al. (2015) find the German SAI’s non-public reports to be the most critical of the three SAIs they studied. Nevertheless, due to the lack of other support, they believe the SAIs’ reports only marginally influenced changes, mainly as the SAIs seldom revealed previously unknown problems, and when they did auditees generally ignored negative audit findings (Jantz et al., 2015). An historical analysis of the United States’ Government Accountability Office (GAO) shows that auditees’ reactions to negative findings also reduced their effectiveness and, when
this requirement was removed, Congress sometimes applied pressure on auditors through such means as direct criticism of the audit agency, or restricting its budget (Basu et al., 1999).

The issue of whether NPM is in conflict with democratic ideals is a recurring one, raised by Guthrie et al. (1999). Pallot (2003) examines the tension between the public accountability concept which is fundamental to SAIs and their operational arms, and those of the neoliberal NPM reformers (in her case, the Audit Office and New Zealand Treasury respectively). Treasury’s focus on privatisation and managerial accountability minimised public accountability and, while the Audit Office assisted with the initial neo-liberal reforms, as the political landscape changed and then retreated from privatisation initiatives to respond to domestic and international concerns to ‘reinvent’ democracy, the Audit Office was able to use its independence and mandate to secure public accountability aligned to these later reforms (Pallot, 2003). SAIs’ roles in greater democratisation of NPM are also highlighted by Baimyrzaeva and Kose (2014) whose survey data identifies how SAIs not only provide information to citizens, but may also effectively use citizen ‘watchdogs/auditors’ (including civil society organisations (CSOs)), consult with citizens, and even form advisory groups of citizens for joint decision making. Nevertheless, these practices are under development and must overcome the cultural differences between SAIs and CSOs, limited SAI (and citizen) capacity and how to ensure that the viewpoints gathered align with the public interest (Baimyrzaeva & Kose, 2014).

These studies point to differences of opinion on what democracy and accountability may mean – as also attested to by Ferry and Midgley (2022). Aucoin (2012) observes that there are a number of additional political pressures on governments that make impartial public administration more difficult. These pressures arise from changes in mass media and communication, increased transparency and increased political polarisation.

The extent to which any country adopted NPM reforms, and the way they were applied varies from country to country, and was impacted by the country’s constitutional arrangements (Cordery and Hay, 2021). Thus, research and practitioner comments highlight the high levels of variation between SAIs (Hay & Cordery, 2020). INTOSAI and regional SAI bodies wield an increasing impact on each country’s public sector through the influence of normative isomorphism (Hay & Cordery, 2021).

Torres and Pina (1999) note post-NPM SAI activity in Europe was hampered by the lack of generally accepted public sector auditing standards to guide their processes, presenting opportunities for the INTOSAI. INTOSAI was established in 1953, and has almost 200 members who work through interest groups and conferences to better the public sector audit community. In addition to developing audit standards for the public sector, it promotes peer reviews, cooperative audits to share best practices, publishes articles and, since 1999 has also operated a separate legal entity called the INTOSAI Development Initiative (IDI). The IDI was first established in 1986 (Cordery & Hay, 2020; Gørrissen, 2020).

Public sector accounting and auditing have also developed in recent years through the adoption of international standards and other international influences. IPSAs are much more widely used (Grossi & Soverchia, 2011). Many more countries publish whole of government
financial reports (Grossi et al., 2009). International Standards for Supreme Auditing Institutions (Johnsen, 2019) have become much more developed, and these standards now include the same International Standards on Auditing that are used by private sector auditors (ISSAI 200 Financial Audit Principles, 2020). They also include standard ISSAI 12, which encourages SAIs to demonstrate how they provide public value (Cordery & Hay, 2019; International Organization of Supreme Audit Institutions, 2013).

Other influences on audit structures and their work that are less directly related to NPM include work of transnational entities, such as the World Bank or international aid agencies; increasing collaboration among SAIs through bodies such as INTOSAI (including the adoption/adaptation of the auditing standards that are used in the private sector). Dye and Stapenhurst (1998) suggest that funders could coerce nations to utilise specific types of accounting and audit with the World Bank (2001) stating that it ‘supports SAIs and tries to strengthen them when working with developing countries’. A key World Bank report by Dye and Stapenhurst (1998) notes the critical role of SAIs in promoting sound financial management which engenders government accountability when combined with other ‘pillars of integrity’ (the media and Parliament). Elucidating one country’s experience Rahaman (2009, p. 229) report that Ghana came under extreme pressure globally to upgrade governance stating that the influence of institutions such as the IMF and World Bank ‘have significantly eroded the power of various Ghanaian governments to manage the country’s economic affairs’. Despite Cordery and Hay (2020) concluding that neither debt nor aid were coercive in SAI structure, global strategic alliances sometimes counteract this effect (Lamoreaux et al., 2015).

Further, as Rahaman (2009) notes, a renewed emphasis in the wider eco-system in the last twenty years on fraud detection and deterrence has generated new interest in the ways SAIs’ financial audits can reduce fraud and fight corruption. A number of authors have discussed corruption and systems to ascertain ways to reduce it. For example, Blume and Voigt (2011) argue higher corruption is related to the Napoleonic SAI structure, and this is confirmed by later research (Kontogeorga & Papapanagiotou, 2022), while Westphalen (2014) argues against this in the case of Peru. Lamoreaux et al. (2015) suggests that higher levels of development aid loans are made to countries with strong accounting and high corruption, although whether these are jointly causative must be questioned. The financialising influence of NPM and the related ‘audit explosion’ is another explanation (Power, 1996; Rahaman, 2009) for SAIs’ newer emphasis on fraud detection and fighting corruption, while a more recent study argues that adoption of accrual accounting, specifically International Public Sector Accounting Standards (IPSAs) is ‘negatively and significantly associated with corruption’ and would therefore assist in controlling corruption in developing countries (Tawiah, 2021, p. 121). Nevertheless, and related to the purpose of this article, Gustavson and Sundström’s (2018, p. 1514), global analysis links ‘good audit’ to reduced public corruption, defining good auditing as ‘characterized by independence from the auditee, professionalism in the exercise of the audit practice, and recognizing the people as the principal’.

---

2 Note that Monfardini and Maravic (2012) provide an example of German local authorities and argue that NPM reforms can also bring about ‘audit implosion’.
In summary, despite a variety of structures under which SAIs operate, SAIs and INTOSAI have been impacted by the NPM reforms and are instrumental in carrying out these reforms (Peci & Rudloff Pulgar, 2019). And yet they also have an important role in changing the path of the reforms in order to ensure public accountability (Pallot, 2003). Further, other eco-system influences lead to isomorphism, new demands and challenges to SAIs’ roles.

4. Role of the public sector auditor – external auditing

First we consider changes in financial audits before the emergence of performance audits and reports, considering NPM and other influences in each sub-section.

4.1. Financial audits and reports

Each jurisdiction will have different permutations regarding to whom public entities must report, but ultimately Parliament is accountable to receive audited reports and to act where necessary. Typically, it has been found that there are few citizens who bother to read (use) public entities’ reports (Hay, 1994) and, while Reck and Wilson (2006) show this has not improved, the more ready availability of website information may be a contributing reason. Undoubtedly readers’ take-up may relate to the audit reports themselves, with Liston-Heyes and Juillet (2022) providing evidence of the variety of audit expressions in external auditors’ reports compared to internal auditors’ reports. They suggest external auditors are likely to be more negative than their internal audit counterparts, but also are more aware of the wider readership of their reports and the environment in which these reports are received (Liston-Heyes & Juillet, 2022).

Hecimovic and Martinov-Bennie (2022) analyse the construction of an audit report by auditors and auditees, but no survey of audit usefulness has recently analysed citizens’ perceptions. Yet, following recent reforms in England, de Widt et al. (2022a) surveyed local authority auditors, regulators and auditees about the legitimacy of mandated audits and audit reports’ usefulness. Respondents afforded legitimacy to auditors and the audit process, but auditees’ CFOs were least positive about audit reports’ usefulness, which they perceived did not assist them to tackle key local government challenges. The reforms have narrowed the audit scope and reduced the cost of the audit, but CFOs’ reactions would suggest a management control explanation for audit that is not held by the reformers (de Widt et al., 2022a; Hay & Cordery, 2018).

The agency argument for audit is, however, evident with Baber et al. (2013) showing that financial reporting quality is higher when municipalities engage higher quality external auditors and when they have audit committees. Financial reporting quality is lower when the elected local government is more entrenched (Baber et al., 2013).

---

3 Hay and Cordery (2018) highlight that this may mean the confirmation hypothesis for auditing is not relevant in the public sector, but a search for research in this area has been fruitless.

4 de Widt et al. (2022b) find that cost drivers are not as strong in the Netherlands where, despite reforms, the ‘match’ between a local government’s profile and its audit firm is valued more highly than efficiency in contracting.
NPM reforms changed many arrangements by which public sector services are provided, leading to public sector auditing itself being pushed and pulled in different directions. Reforms attempted to make public sector audit more efficient or cheaper; but a counter current of reforms sought to provide a stronger centralised audit function. In New Zealand, a pioneer in NPM reform, there was discussion of the entire public sector audit function being transferred to the private sector (Green & Singleton, 2009). Following several rounds of reform, the Auditor-General and the audit function were given a stronger position. The audit of local governments in the Australian state of New South Wales were required to be put out to tender amongst private sector auditors in 1995 (Boon et al., 2005), but were centralised again under the Auditor-General (Audit Office of New South Wales, 2018). Similarly, in the UK, the public audit function was ‘rolled back’ in 2010 (Johnsen, 2019). The impetus for outsourcing is cost and efficiency, as shown by Johnsen (2021) in Norway where outsourcing reduced the cost of local government audits, although he recognises other contexts may have different outcomes. Johnsen (2021) notes there is no direct relationship between costs and audit effectiveness, as auditee cooperation and experience were likely contributors to this outcome. Accordingly, these conflicting forces are probably not yet resolved, and we might expect further reforms pushing and pulling outsourcing.

As intimated in the prior section, changes in public audit occur not only due to NPM reforms instigated by governments, but due to international and regional professional pressures. This can be seen in a study of Fiji (Nath et al., 2022) where auditors manage political constraints to introduce ‘Western’ accountabilities and processes. Similarly, government reforms unrelated to NPM also require adopting tools developed elsewhere. Brazil has passed a series of digitalisation reforms, the most recent through Brazil’s Fiscal Responsibility Law which introduced regulatory oversight and data for whole of government consolidation of accounts (Lino et al., 2022). The Brazilian Court of Audit adopted digital tools to audit these digital artefacts in line with INTOSAI’s 2019 declaration; nevertheless, audit innovation has been muted, as the majority of audits undertaken by this Napoleonic-model SAI continue to focus on compliance, rather than the more proactive financial and performance audits (Aquino et al., 2022). Such issues with digital reforms and innovation are not unusual, as confirmed by Otia and Bracci’s (2022) interviews across a number of SAIs, public sector auditors fail to respond quickly to the possibilities for audit of digital transformation and changes in the wider environment more generally.

4.2. Performance audits and reports

A number of authors argue that NPM and the rise of the audit society are enablers of performance (‘value-for-money’ (VFM)/ ‘Best Value’) audits, allowing government and public sector entities to manage risk and improve accountability (e.g., Lapsley, 2012; Rana & Hoque, 2020). Guthrie and Parker (1999, p. 303) define a performance audit as ‘an independent evaluation of the economy and efficiency of auditee operations and of the effectiveness of its programs’, and confirm it is a social construct that has changed over time as a ‘malleable masque’ (Parker et al., 2019, 2021). Thus, Jacobs (1998) confirms that audit technology is revised and restructured as auditors experiment with performance audit - a type that differs markedly from compliance and financial audits.
While NPM prioritises performance audits, Lapsley (2012) concludes that performance audits may also lead to dysfunctional behaviour and deliver only the appearance of (not actual) transparency. In a structured literature review of performance auditing and its challenges in the post-NPM era, Rana et al. (2022) also note its dual role for performance and accountability (see also, for example Gendron et al., 2001; Lapsley, 2008; Parker et al., 2021), and the resultant unintended consequences and conflicts.

Performance audit is widespread throughout the public sector, including within regional and local government entities (Johnsen et al., 2001). Examples can be seen in many countries where authors conclude that, despite the impactful nature of some performance audits (for example, Bringselius, 2014; Jantz et al., 2015; Johnsen et al., 2019; Reichborn-Kjennerud, 2013; Reichborn-Kjennerud & Johnsen, 2015; Reichborn-Kjennerud & Vabo, 2017), yet auditors have a conflict of interest when they both audit and advise on performance reporting (for example, Alwardat et al., 2015; Gendron et al., 2001; Reichborn-Kjennerud & Johnsen, 2015), and exceed their mandate (as identified by English, 2007; Pollitt, 2003) by critiquing policy objectives.

Auditors seek to be seen as reformers to change auditees’ perceptions, presenting themselves as experts in evaluating government performance (‘modernisers’) to guide enhancements in auditees’ performance measurement systems (Hazgui & Gendron, 2015; Morin & Hazgui, 2016; Skærbæk, 2009). Further, auditees may consider audit reporting is biased (Reichborn-Kjennerud & Vabo, 2017), or that auditors are uninformed on how best to measure and report performance (Alwardat et al., 2015) and hence, do not take up recommendations for change (Morin, 2008). Hence, as noted by Scott (2003, p. 216), ‘the challenge for auditors is to align their steering with the normative structures within target institutions’. Thus, if audit is to effect change it may require parliamentary intervention as well as auditees’ internal commitments (Morin, 2008; van Acker & Bouckaert, 2019). Performance audit consequences therefore impact auditors, auditees, and their organisations (Alwardat et al., 2015; Justesen & Skaerbaek, 2010).

Performance audits and reports extend beyond general performance to assess VFM and other reforms, for example, Public Private Partnerships (PPPs). Performance audits of controversial PPPs can perform a legitimacy role, increase transparency and provide opportunities for citizens to question government policy (English, 2007; Viana et al., 2022). Further, European SAIs were called upon to audit the legality of NPM reforms’ privatisation of non-core public sector activities, and to assess whether it achieved NPM’s initial goals (1999). Such critique is also seen in the large INTOSAI project involving 73 INTOSAI member SAIs that elected to audit the ‘preparedness’ of individual nations to report against the Sustainable Development Goals (SDGs) (Cordery et al., 2022). These are examples of environmental performance audits, although one of Cordery et al.’s (2022) participants suggested that the SDGs provided defined parameters, with SDG audits to hold governments to account being a simpler matter than a broader environmental audit which requires close attention to stakeholders’ differing objectives.

In summary, notwithstanding the impact of NPM and related reforms over the last fifty years, changes in the wider eco-system also impact SAIs and public sector audit. It is apparent that
SAIs have a growing role to enable environmental governance and hold governments to account for their actions on issues of importance to citizens (Cordery et al., 2022; Cordery & Hay, 2021; Smith et al., 2021). Specifically, some SAIs work for greater inclusion of citizens (as described above) seeking governments’ responsiveness to sustainable development issues (Cordery et al., 2022; Smith et al., 2021). Where SAIs lack a mandate to undertake such activities (as performance audits), many continue to push for changed mandates and the ability to utilise tools developed through performance audits to carry out environmental governance (Cordery et al., 2022; Smith et al., 2021). Potential exists to analyse the wider environment and how transformation can occur and what it will mean for further public sector reforms. Next, we turn to internal audits as a public sector function.

5. Role of the public sector auditor – internal audits

Internal auditing is another private sector business practice which has become increasingly prevalent in the public sector since the NPM reforms. With an increasing emphasis on measurement of economy, effectiveness and efficiency, and NPM reforms spurring a greater emphasis on auditing (Power, 1996), internal auditing has also taken on an internal consulting role (Alzeban & Gwilliam, 2014). Liston-Heyes and Juillet (2021) confirm, for example, that the Canadian government invested heavily so that internal audit is ‘vigorous’. Further, Coetzee and Erasmus (2017, p. 237) provide an example from South Africa where NPM reforms and the Public Finance Management Act 1999 ‘required the implementation of an effective internal audit function in all public sector institutions to which the Act applies’. Mihret and Yismaw (2007) report a similar situation in the Ethiopian public sector. In comparison, US municipalities are not required to have internal auditors, thus Jensen and Payne (2003) find that entities without internal auditors tend to engage external auditors with greater levels of expertise. This would confirm the findings of Baber et al. (2013), that low levels of audit oversight can increase municipalities’ debt financing costs and push an argument for municipal audit committees as occurs in the private sector. Effective internal audits therefore help management as well as the external auditors when the audit team is competent and sufficiently independent from the organisation’s management (Roussy & Perron, 2018).

Nerantzidis et al. (2022) explain that the need to measure outputs and outcomes – another feature of NPM reforms – drove the increase and evolution of public sector internal audits. For example, in Australia, the SAI critiqued poor public sector reporting and a lack of appropriate performance indicators (Elbashir et al., 2022). Thus, since 2000, Government entities have been required to specify their intended outcomes and to report on actual performance against an ‘Outcomes and Outputs Framework’ – a practice mandated across all public sector entities a decade later (Elbashir et al., 2022). Elbashir et al. (2022) argue that public sector organisations must adopt and integrate business intelligence systems to improve service performance.  

---

5 Liston-Heyes & Juillet (2020, p.1087) argue that ‘public auditors are relatively more preoccupied with issues of performance and risk management’ that is, management systems, hence such systems will be a necessary tool for them as well as management.
Internal audits can also arrest fraud by addressing internal control weaknesses (Roussy & Brivot, 2016). Asiedu and Deffor (2017) explain that Ghanaian reforms led to increased legitimacy for internal audit and better qualified internal auditors, greater disclosure of fraud and its amelioration. Further, Coram et al.’s (2008) Australian study of self-disclosed fraud in both private and public sector entities finds that internal audit functions are present in their public sector respondents but not private sector respondents, and that all entities with such a function are more likely to detect and self-report fraudulent misappropriation of assets than those without an internal audit function.

However, technological moves to ‘open government’ and therefore greater transparency – a post-NPM reform driver - can impact the willingness of internal auditors to report in a manner which befits their role (Liston-Heyes & Juillet, 2020). Further, perceived organisational ‘isolation’ may make internal auditors resistant to change (Liston-Heyes & Juillet, 2019). Professional bodies directly and indirectly influence these relationships as shown by Liston-Heyes and Juillet’s (2019) structural equation modelling tested against a survey of Canadian public sector internal auditors. Nevertheless, they are also subject to wider stakeholder input with Khelil and Khelif (2022) using Tunisian data to show how internal auditors’ interactions with stakeholders holding diverse expectations leads to issues of role ambiguity. Such problems may require reforms to protect auditors who are well placed to assess compliance but also proactively advise public sector entities.

A final example of internal audit usefulness is their central role is in entities’ risk management (Alzeban & Gwilliam, 2014; Coetzee & Erasmus, 2017). An aspect of Power’s ‘audit explosion’, risk management enables governments to hold public entities to account for inherent uncertainties. Liston-Heyes and Juillet (2020) note that auditability of risks suggests they are able to be controlled, however Vinnari and Skærbæk (2014) show that risk management produces uncertainties in its successive reiterations. Value-for-money auditing is also related to a category of private sector internal auditing, known as operational auditing (Flesher & Zarzeski, 2002).

In summary, NPM spurred an increase in internal audit through mandating its use in public sector entities and in requiring risk management. Nevertheless, audit committees may not be as effective as they could be (Mihret & Yismaw, 2007), nor may they operate as expected, especially in different contexts (Alzeban & Gwilliam, 2014; Botica Redmayne et al., 2011). Further, technological developments such as open government and business intelligence have also impacted the effectiveness and efficiency of internal audit and internal auditors’ engagement with external auditors and other stakeholders.

6. Discussion and Conclusion

We sought to answer the question of how public sector auditors’ structures, roles and influence have changed as a result of NPM and other influences, through examining and synthesising public sector audit research over the last three decades. We recognise that this is not a comprehensive structured review, especially as others have recently considered aspects of public sector audit in this way. Specifically, we seek to spur further research into
this under-researched area as reforms are required to move audit into areas that will enhance government accountability and transparency.

Public sector audit has responded to the changing environment, with SAIs and their staff becoming increasingly influential internationally through INTOSAI and the IDI (Gørrissen, 2020; Peci & Rudloff Pulgar, 2019) and through auditing the SDGs and other environmental and digital issues (Cordery et al., 2022). Domestically, SAIs work with Public Accounts Committees, the Executive and Parliament to hold governments accountable and to increase transparency of public sector operations (Clark et al., 2007; Milgrom & Schwartz, 2008; van Acker & Bouckaert, 2019). NPM has pushed the maturity of these accountability structures led to audit outsourcing and a variety of audits being undertaken, increased the need for and scope of internal audits including risk management (Alzeban & Gwilliam, 2014; Asiedu & Deffor, 2017; Coetzee & Erasmus, 2017; Johnsen, 2021; Liston-Heyes & Juillet, 2021; Mihret & Yismaw, 2007). The rise of performance audits following the NPM reforms, including the assessment of value-for-money of social programmes and PPPs, may lead to greater transparency and legitimacy (English, 2007). Public auditors may not critique policy but they have been called upon to assess the achievements of NPM reforms, including privatisation processes (Torres & Pina, 1999).

Nevertheless, the literature we have reviewed shows that non-NPM external influences also contribute to changing the public audit mandate and practice. These include adoption of IPSAS-based accrual accounting and developed countries’ notions of best practice governance (Cordery & Hay, 2020; Rahaman, 2009), auditees’, regulators’ and auditors’ emphases on digitalisation and business intelligence systems (Aquino et al., 2022; Elbashir et al., 2022; Lino et al., 2022), auditees borrowing from private sector ‘best practice’ to establish voluntary audit committees (Fitzgerald & Giroux, 2014; Matkin, 2010), and dependence on audit to fight fraud and corruption (Gustavson & Sundström, 2018; Rahaman, 2009; Tawiah, 2021).

It is apparent that the role of public sector audit is challenging and requires auditors to be abreast of audit standards, relevant legislation, citizen concerns, and technology. Yet, in line with recent literature reviews (Mattei et al., 2021; Rana et al., 2022) we find there is a need for further research in English language academic journals in at least three main areas.

First, there is a need for increased understanding of the reform experience of developing nations for two reasons. Initially such research can facilitate more culturally-aware and nuanced reform processes to gain the promised benefits of reform, rather than merely expecting the INTOSAI IDI alone to drive this. Secondly such research can feed back to more-developed nations and enhance learning from developing nations’ experience. For example, audit undertaken in post-conflict societies that may be politically unstable or subject to the collapse of important infrastructure institutions can speak to issues that are being experienced in developed nations currently.

The second area requiring further research is in respect of emerging technologies such as in open government, digital technologies, and environmental audit (e.g. SDGs). We refer to examples of countries where the emphasis remains on compliance audits – a ‘tick-the-box’ mentality that could be reformed through using new technologies (Cordery & Hay, 2021).
Such reforms would free resources for important government issues and therefore require research to inform not only how audits are undertaken using emerging technologies, but also whether these result from new demands for audit which require paradigmatic changes. As we understand more about how public auditors meet challenges within the wider auditing eco-system, research will move from looking back on NPM reforms to detect and support public audit change.

Thirdly, we noted that structural variety exists, yet apart from putative historical and cultural reasons (not confirmed by Cordery & Hay, 2021), we lack strong empirical evidence of the benefits and outcomes of different structures. As SAIs and governments continue to reform, more comparative studies are required to assist learning and the development of new models to deal with the dual challenges of accountability to citizens and public sector effectiveness.

Public sector audit is as important today as it was in the distant past. We argue that SAIs and other public sector auditors have not only been impacted by past NPM reform, but can assist in democratic reform that allows greater citizen engagement in government policy and practices. These auditors can step in the breach to encourage greater public sector performance, as well as to shine the light on that performance.
References


Gørrissen, E. (2020). The role of the INTOSAI Development Initiative (IDI) in strengthening the capacity and performance of Supreme Audit Institutions in developing countries. *Journal*


