Evidence about the value of public sector audit to stakeholders

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Why evidence about the value of public audit to stakeholders

- Do New Zealand Citizens, Parliament and Other Stakeholders Get value?
- Contribution to understanding auditing more widely
Why Examine The Value of Public Audit?

- ISSAI 12: The Value and Benefits of Supreme Audit Institutions: Making a difference to the Lives of Citizens
- “Demonstrate ongoing relevance to citizens, Parliament and other stakeholders”
Focusing on

• Financial statement audits and related activities
  • (87% of OAG work)
• Investigations and Performance Audits
Context of research – Supreme Audit Institutions (SAIs)

• National public sector auditor
• Almost 200 members of INTOSAI (includes regional organisations)
• Three main formats
  • Westminster model (e.g. NZ with independence and an Auditor-General)
  • Board model (similar to Westminster but a Board rather than individual runs the SAI)
  • Napoleonic model (e.g. a Court of Audit with legally trained judges – France and its ex-colonies)
• Varying remits
Research Question

• What are the components of public value Supreme Audit Institutions could deliver?

• What evidence is there internationally of public value being delivered by SAIs?

• Searched websites of 73/192 SAIs for key terms around “public value”,

• 16 had English reports that were relevant to search: Australia, Bangladesh, Canada, Estonia, Hungary, Iceland, Ireland, Jamaica, New Zealand, Norway, Poland, South Africa, Switzerland, Turkey, UK, and US.
What is public value?

• Public expect accountability
  • To report on effective and efficient delivery of social outcomes
  • To deliver fairness and justice (Moore, 1995; Scott, et al., 1990)

• Audits (or the threat of them) create a “continuous current of accountability that runs through public agencies” (Moore, 2013)

• SAIs bring
  • strong formal oversight and efficient budget systems
  • should help support reform
  • theoretically reduce corruption

• Value could be about individuals or citizens, but we take an organisational approach to value – i.e. that public managers should deliver value.

Moore, 1995; 2014
The 12 principles of the value and benefits of SAIs under each of the three objectives are:

**SAIs making a difference to the lives of citizens**

- **Principle 1:** Safeguarding the independence of SAIs
- **Principle 2:** Carrying out audits to ensure that government and public sector entities are held accountable for their stewardship over, and use of, public resources.
- **Principle 3:** Enabling those charged with public sector governance to discharge their responsibilities in responding to audit findings and recommendations and taking appropriate corrective action.
- **Principle 4:** Reporting on audit results and thereby enabling the public to hold government and public sector entities accountable.

**Demonstrating ongoing relevance to citizens, Parliament and other stakeholders**

- **Principle 5:** Being responsive to changing environments and emerging risks.
- **Principle 6:** Communicating effectively with stakeholders.

**Being a model organisation through leading by example**

- **Principle 7:** Being a credible source of independent and objective insight and guidance to support beneficial change in the public sector.
- **Principle 8:** Ensuring appropriate transparency and accountability of SAIs.
- **Principle 9:** Ensuring good governance of SAIs.
- **Principle 10:** Complying with the SAI’s Code of Ethics.
- **Principle 11:** Striving for service excellence and quality.
- **Principle 12:** Capacity building through promoting learning and knowledge sharing.

**Safeguarding the independence of SAIs**

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**Building Trust**

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Legitimacy and support

• We are independent” (all)
  – But we don’t have enough money/life is challenging (Ireland, Jamaica, South Africa, Australia)

• “We are trustworthy”
  – Clean audit report (e.g. Hungary, New Zealand, South Africa)
  – “Having a reputation of being an objective and credible entity is important” (Turkey)

• “We use current (excellent) techniques”
  – e.g. Australia, Jamaica, Poland

• “We are better than other watchdogs” (Bangladesh)
The 12 principles of the value and benefits of SAIs under each of the three objectives are:

**OPERATIONAL CAPACITY:**
- Responsiveness & voice

**STRATEGIC CAPACITY:**
- Safeguarding the independence of SAIs

**OPERATIONAL EFFECTIVENESS:**
- Carrying out audits to ensure that government and public sector entities are held accountable for their stewardship over, and use of, public resources

**SAIs making a difference to the lives of citizens**
- Strengthening the accountability, transparency and integrity of government and public sector entities
- Being a model organisation through leading by example
- Ensuring good governance of SAIs
- Ensuring appropriate transparency and accountability of SAIs
- Complying with the SAI’s Code of Ethics
- Striving for service excellence and quality
- Capacity building through promoting learning and knowledge sharing
- Reporting on audit results and thereby enabling the public to hold government and public sector entities accountable
- Being responsive to changing environments and emerging risks
- Communicating effectively with stakeholders
- Being a credible source of independent and objective insight and guidance to support beneficial change in the public sector

**Demonstrating ongoing relevance to citizens, Parliament and other stakeholders**
Operational Capacity

- We are a model organisation”
  - Our staff are highly trained (e.g. Bangladesh, Canada, South Africa, UK)
  - We have good systems (e.g. Turkey and its IT capacity)

- “We lead by example”
  - Publish annual reports (16), including financial statements (7), a strategic plan (12) and an annual plan (5)

- “We use current (excellent) techniques”
  - e.g. Australia, Jamaica, Poland
  - Costs have decreased/but we check the quality hasn’t (e.g. UK)

- “We communicate to remain relevant to the public”
  - Make audit reports understandable (e.g. Canada, New Zealand)
  - Count citizen engagements (e.g. Iceland, Jamaica, Poland, South Africa)
YOU PURCHASED GOODS AND SERVICES OUTSIDE THE LAW...

BUT WITHIN OFFICE HOURS!

The SFAO audit over the Central compensation Office OASI / DI / APG as seen by Mix & Remix.
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**PRINCIPLE 4**: Strengthening the accountability, transparency and integrity of government and public sector entities

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**STRICTEGIC PLAN TO DELIVER PUBLIC VALUE**: Independently & objectively supporting reform

**STRICTEGIC PLAN TO DELIVER PUBLIC VALUE**: Ensuring public sector accountability
Public Value (ISSAI 12) (1)

- Aim to ensure public sector accountability (all)
- Monetisation:
  - UK and US monetise the savings that they make for government.
  - Bangladesh also records tax revenue/savings;
  - Jamaica warns that costs will increase without audit
- Favourable reports from auditees
  - e.g. Australia, Canada, Estonia, Ireland, UK
- Highlight their support for reform
Report

-ing

public

value
The changing environment

- Fewer resources for traditional media
- Change in focus of traditional media
  - Less formal, more opinion, more international
- Wider public access to information through the internet
- The rise of social media
  - Armchair auditors
Examining the value of public sector audit

• Investigation 1: literature and history
• Investigation 2: what other SAIs report they are doing
• Investigation 3: evidence from documents, observations and interviews
• Investigation 4: proposals for future research
Explanations for demand for audit and potential stakeholders

• Agency
• Signalling
• Insurance
• Management control
• Governance
• Confirmation
Agency Relationships in the New Zealand Public Sector

8 December 2016
Evidence

- Observations, interviews and focus groups
- Communications to stakeholders by the OAG
- Data and reports obtained by the OAG
Observations interviews and focus groups

• Select committees
• Focus groups and interviews
Observations and data

- Audit reports
- Management letters
- Corporate governance
- Observation of select committee reviews
- Social media
- Media survey
- Surveys of auditees, Parliament, Public confidence
- Citizen panel
- Peer review
Audit Reports

- Explanations, stakeholders
- Evidence
  - Modified in some cases
  - Sometimes modifications recur each year
- Users
  - Management respond to (by sometimes making changes)
  - Select committees discuss
- Changing environment: Key Audit Matters
Management Letters

- Explanations, stakeholders
- Evidence
  - They lead to changes
  - Sometimes recommendations rejected or ignored
- Users
  - Management respond to (by making changes)
  - Select committees discuss (reports based on management letters)
- Recommendation: wider reporting, especially of remediation
### Output class: Audit and assurance services

#### 2014/15 results and previous performance for Audit and assurance services

<table>
<thead>
<tr>
<th>Measure</th>
<th>At least 70% of the key recommendations our auditors include in management reports are accepted and acted on.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Result</td>
<td>Achieved.</td>
</tr>
<tr>
<td>Comment</td>
<td>In 2014/15, 73% of our key recommendations were accepted, and acted on. For the year ended 30 June 2015, a sample of 45 entities was assessed against this performance measure.</td>
</tr>
</tbody>
</table>

**Figure 6**
Percentage of management report recommendations accepted by public entities, 2010/11 to 2014/15
SELECT COMMITTEES

• IDEOLOGICAL QUESTIONS
• LOGICAL QUESTIONS
• OAG ROLE
Select committees

Bennett  Gareth, just let Dan—he was going to answer—but I think the present value of our rehab liability across just Stockton—is just over $100 million. It’s on the balance sheet. Currently, we do have an indemnity with Energy that reimburses the costs of that rehabilitation. We’re showing positive progress in our rehabilitation while we’re operating as we are. And just to outline that a little bit further, our rate of disturbance is being overrun by our rate of rehabilitation. So, in essence, we have a net positive rate of improving our situation from the last 10 to 15 years of mining operations.

Clifford

Scott

It seems that your North Island—and I’m talking about marginal costs—your North Island, you said, was contributing to the profit. Some of these smaller South Islands were contributing and positive, so your marginal costs are below $100, it seems to me, and your Stockton is significantly above $100. How low could that dollar price go? I mean, what is your marginal cost on those profitable businesses?
Social media

- Twitter
- Instagram
- Facebook
Auditor-General NZ

Official Twitter feed of the Office of the Auditor-General of New Zealand. Tweets are by the Office's Reports & Communications Group.

Retweet=Endorsement.

📍 New Zealand
🔗 oag.govt.nz
Joined October 2011

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**Pinned Tweet**

**Our Wellington office is closed because of safety concerns for a building across the road. More info ➤ oag.govt.nz/media/2016/wel...**

**We've published our report about our inquiry into the Saudi Arabia Food Security Partnership ➤ oag.govt.nz/2016/food-secu...**
The Auditor-General of NZ Photos and video by Auditor-General Lyn Provost. #OAGNZ #NZWatchdog www.oag.govt.nz
Surveys

• Parliament and other stakeholders
• Media
• Citizen engagement
• Public confidence
INTERVIEWS AND FOCUS GROUPS

• FROM THE OFFICE OF THE AUDITOR-GENERAL
How your $100 of rates is spent

We use revenue from rates to pay for things that make Auckland such a great place to live – public transport, events, parks and other community facilities. We continue to invest more than ever before in your communities, delivering more facilities and infrastructure for Aucklanders.

Each $100 of rates funding is applied to specific areas. The largest portion goes to transport, followed by lifestyle and culture, which includes funding for events, parks and recreation and arts services.

Unaudited information: Information about property taxes (rates) provided by Auckland Council
EXPLANATIONS FOR DEMAND FOR AUDIT AND POTENTIAL STAKEHOLDERS

• Agency
• Signalling
• Insurance
• Management control
• Governance
• Confirmation
RECOMMENDATIONS

• Reporting on internal control weaknesses
• Inspection of auditors
• Further research
Review

• Does the Office of the Auditor-General of New Zealand demonstrate ongoing relevance?

• Evidence about explanations for audit in this setting

• Areas for future research